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International

Interview With Immigration Chief Reported

OW0906133190 Tokyo MAINICHI DAILY NEWS in English 7 Jun 90 p 4—FOR OFFICIAL USE ONLY

[Interview with Kagechika Matano, director general of the Justice Ministry's Immigration Bureau, by Nobuo Yamamoto, MAINICHI SHIMBUN editorial writer; place and date not given]

[Text] MAINICHI: Could you tell me what necessitated the revision of the Immigration Control and Refugee Recognition Act?

Matano: Basically, amendment of the law became necessary because the environment surrounding immigration control administration has rapidly changed due to the expansion of Japan's role in the international community. Thus, the number of foreigners arriving in Japan has sharply increased and their activities have diversified. Calls for expanded opportunities to employ foreigners with special skills are intensifying. On the other hand, problems involving illegal foreign workers are also becoming serious. These developments necessitated the amendment of the immigration law.

MAINICHI: Do you think the law was revised in a way profitable for a present-day and future Japan which is internationalizing rapidly?

Matano: There are three main points in the amendment: 1) Expansion of the legal framework for accepting foreigners with special skills and knowledge. 2) Simplification of immigration procedures. 3) Creation of provisions to cope with problems of illegal foreign laborers which are becoming increasingly serious.

MAINICHI: What do you think are the merits that employers and foreign workers will have under the revised immigration law?

Matano: Since the criteria for qualification to enter Japan have been improved as a result of the amendment, employment of foreigners with special skills and knowledge in Japan is now made easier. The criteria for permitting entry into Japan are clearly provided for in the ministry's ordinance.

Under the new system, prior to application for a visa to enter Japan at Japanese diplomatic establishments abroad, applicants can obtain certificates of eligibility to enter Japan. Thus, foreigners' procedures of entry into Japan will be simplified and speeded up. The revision is also advantageous to employers in that the opportunities of employing foreigners with special skills will be expanded and the criteria for permission of entry are clear.

MAINICHI: Can foreigners obtain certificates of eligibility to enter Japan before departure from their home countries? Which government organization issues the certificates?

Matano: Those who accept foreigners in Japan submit the necessary documents to the nearest Immigration Bureau and obtain the certificates. They then send the certificates to foreigners who wish to come to Japan. When the foreigners apply for visas at Japanese diplomatic establishments abroad, they have already been certified as meeting the conditions for entry into Japan and, therefore, the issuance of visas will be speeded up.

MAINICHI: Isn't it impossible to prevent the influx of illegal foreign workers with only an amendment to the law?

Matano: The revised immigration law provides new rules aimed at preventing foreigners from working illegally. I think if governmental organizations closely cooperate, the law will be effective.

MAINICHI: Don't you think that more of these workers will go underground and the number of brokers will increase? Don't you think various problems involving working conditions and personal rights of the workers who go underground will increase following the enactment of the new immigration law?

Matano: The revised law provides for new measures to cope with illegal employment of foreign workers.

Those persons who employ illegal foreign workers for business activities will be subject to punishment if such workers entered Japan on or after June 1, 1990, and if the employer is aware of their entry on or after this date. Foreigners without proper status, regardless of their date of entry, are subject to deportation as under the previous Immigration Control Act.

Illegal foreign workers could suffer from poor working conditions such as law wages and exploitation by intermediaries. While controlling offenders, the Immigration Bureau will do what it can to tackle such problems as infringement of the personal rights of illegal workers and unpaid wages.

MAINICHI: The effect of the revision of the immigration law hinges largely on whether the revised law is applied strictly or loosely, doesn't it?

Matano: The Justice Affairs Committees of both Houses of the Diet passed supplementary resolutions on the revised immigration law. Noting that the law's penal provisions on employers and brokers are aimed at those employers and brokers who exploit foreign workers, the supplementary resolutions call on the government to exercise prudence in enforcing these provisions. It also urges the government to pay close attention to illegal foreign workers' personal rights. We will apply the law, fully taking into account these resolutions.

MAINICHI: The immigration law revision is causing confusion and consternation among foreigners already working illegally in Japan. Not only illegal workers but also their employers do not fully understand what has

changed under the new law. What efforts are the immigration authorities making to promote public understanding of the revised law?

Matano: Following the passage of the law through the Diet, we have conducted a wide range of activities to inform the public of the amendment. The Immigration Bureau compiled leaflets on the new immigration law and held seminars for employers. We also participated in explanation meetings sponsored by various governmental and private organizations.

We also explained the law changes to ministries and agencies concerned as well as news media, including English-language newspapers. We also contributed articles explaining the deatails of the law revision to a variety of magazines and bulletins. We are aware of the necessity to step up efforts to promote public understanding of the new law since it has already come into effect.

MAINICHI: Isn't it difficult to create awareness among illegal foreign workers whose whereabouts are not known. There are lots of illegal workers who do not understand English.

Matano: We will continue our efforts to promote public understanding on what is authorized or not authorized under the law. As for the punishment, it is the juridical authority that makes decisions. I believe that they will take into consideration the supplementary resolution in handing down their rulings.

MAINICHI: The problems involving illegal foreign workers is not just a matter of immigration control but must be tackled systematically.

Matano: The whole government must address itself to the issue of foreign workers. The Immigration Bureau worked out the bill to revise the immigration law based on the consensus of the whole government. The revised law laid out a new legal foundation for immigration policy. The criteria for permitting foreigners' entry into Japan are provided by the new ordinance. We also plan to make full use of misterial conferences and other forums to discuss and elaborate policy concerning foreign workers in Japan.

Further Relaxation of Cocom Regulations Urged

OW1006112490 Tokyo ASAHI EVENING NEWS in English 9 Jun 90 p 6—FOR OFFICIAL USE ONLY

[ASAHI SHIMBUN 9 June editorial: "Easing Off on COCOM"]

[Text] Modern warfare is fought by nations utilizing the most advanced technology they have. Strategically useful technology can be said to be the weapons themselves.

The formation of the Coordinating Committee for Multilateral Strategic Export Controls (COCOM) by Western nations, including Japan, to prevent the outflow of strategic technology to the east was inevitable during the Cold war when nations of the West and East glared at each other as enemies. The 17-member nations of COCOM recently agreed to greatly relax the strict export restrictions to the East that have been in place ever since the formation of the organization in 1949.

The agreement was comprised of three main points. First, restricted items, centered on those for which export restrictions no longer make any sense, are to be greatly reduced in number or have their export conditions alleviated. Second, easing of restrictions on advanced technology that would contribute to the economic rehabilitation of East European nations will be permitted with certain conditions attached. Finally, the COCOM list of restricted items will be simplified completely by the end of this year.

We regard highly the expression of an active posture through the latest agreement toward supporting Eastern Europe as it proceeds with the move toward a market economy. In order to maintain the current trend toward the relaxation of tensions between the West and East, the improvement of the economies of East European nations is a must.

If the military confrontation between the two sides truly ends, COCOM should be terminated. However, although arms reduction has been progressing, there is no change in the fact that the United States and the Soviet Union still confront each other with huge military machines. To ask for the immediate abolishment of COCOM remains very difficult.

Still, Europe is in the process of fashioning a new security arrangement combining both sides with the impending integration of Germany. The Warsaw Pact declared its move away from being a military alliance. The Soviet Union must also introduce superior commercial technology in order to revitalize its economy.

In line with these recent trends, we hope COCOM will proceed with further relaxation of its restrictions, including those on exports to the Soviet Union. In that sense, we would like to maintain our attention on the coming simplification of the agreed on COCOM list. Instead of simly rearranging the items, the restrictions should be eased to the minimum limit possible.

The management of COCOM has been led strongly by the United States due to the birth of the committee as an inevitable spin-off of the cold war. The provisions of the recent agreement, in fact, are almost similar to the U.S. proposal announced at the beginning of May.

It is difficult for outsiders to point out problems with the COCOM list because it is kept secret. Still, there has been a constant succession of critics who say that whatever the outcome, agreements reached at COCOM meetings tend to favor the United States. The severe criticism from the Unitetd States that fell upon Toshiba Machine Co. after its exports of numerically controlled machine

tools to the Soviet Union was declared a violation of COCOM is still fresh in the minds of many Japanese.

As long as Japan remains a member of COCOM, it must abide by the restrictions established by the organization, but it is not fair if any agreements are influenced by the intentions of the United States. During the course of drawing up the new list of restriced exports, the Japanese Government should aggressively state its opinions.

In any case, the relaxation of COCOM restrictions is good news for Japan as it continues to stay at the forefront of commercial technology. This is because not only will exports of products severely restricted in the past be easier, but also because Japanese technology is among the most sought after not only by East European nations but also by developing nations pushing for rapid development of their economies.

Japan has often been criticized by other nations for not being very enthusiastic about transferring its technology to developing nations to the extent that it aggressively exports products and promotes local production. During a time when the dramatic easing of COCOM restrictions is possible, we feel it is in the interests of Japan to release its technology as much as possible.

Editorial Speculates on Future of Cocom

OW1805122090 Tokyo NIHON KEIZAI SHIMBUN in Japanese 11 May 90 Morning Edition p 2—FOR OFFICIAL USE ONLY

[Editorial: "Demise of Cold War Puts COCOM at Crossroads"]

[Text] As the Cold War is about to draw to a close, the review of systems and treaties, which have shored up the cold war structure, is under way. As part of this review, moves are afoot to cut back on export-ban lists under the Coordinating Committee on Multilateral Export Control (Cocom), which aims at regulating the transfer of technology to the Communist Bloc.

Early this month, the United States announced plans to effect an extensive reduction of export-ban lists under the Cocom. At present, the country plans to lift export ban on 30 out of 120 items and to ease export regulations on 13 items. The country is intended to implement these plans within this year after consulting with other Cocom member nations.

The Executive Committee of the Cocom already agreed to relax the regulations in February and the relaxation of regulations this time will be the most extensive and comprehensive review in the history of the Cocom. Many items, including computers, in which the West has technological predominance, will be subject to the relaxation of regulations.

In the era of the Cold War, the Cocom was the most difficult issue for the Western alliance to keep the economy and security in balance. The technological transfer of industrial nations is indispensable for the sustained growth of the world economy and the easing of regulations is a precondition for the expansion of the free trade. However, the transfer of high-tech has directly contributed to modernizing military strength in the Communist Bloc, particularly the Soviet Union, and has also resulted in increasing the economic burden of the West. Looking at historic changes in the Soviet Union, the Bush administration has begun to gradually shift its diplomatic balance from security to the economy. The administration announced the renouncement of "a containment policy" against the Soviet Union last May. In addition, the administration recently withheld any economic sanctions against the Soviet Union, despite the issue of Lithuania's independence. The review of the COCOM is President Bush's clear-cut message, affirming his support for perestroyka on the eve of the U.S.-Soviet summit meeting, slated for late this month.

The sketch of "a new era" declared at the Malta summit meeting held between the U.S. and Soviet leaders has yet to come into being. Although Gorbachev became President, there is a strong sign that he cannot fully display his leadership in implementing the domestic policy.

President Gorbachev has not yet taken steps to prepare "a bitter medicine," although he has a prescription in mind to pull the Soviet economy out of crisis. He is hearing about the military's resistance against sharp cuts in armaments. Despite perestroyka's calls, the military, the Communist Party, and organizations in charge of security remain intact.

For these reasons, the Bush administration appears to turn its eyes from the Lithuanian issue and to precipitate changes in the Soviet Union by shoring up the Gorbachev Government. It is being whispered that, at the upcoming summit, the United States is highly likely to grant the most-favored trading nation status to the Soviet Union.

In a transition period, we have to prepare against many dangerous aftershocks because chances and risks interact. It is impossible for us to build "a new era" if we fail to deal with changes in a bold manner and with crisis in a cautious manner. We need this attitude in dismantling the cold war structure.

In a new era, the Cocom system will be a hangover to be buried and changes taking place in Eastern Europe are verifying this. In the near future, the Soviet economy will be incorporated into the world economy. During this transition period, however, Soviet nuclear missiles remain an ominous presence. With an eye on dismantling the COCOM system, therefore, it is desirable to review the export-ban lists in the way that the transfer of technology for military use is regulated for the time being.

Editorial Views Future Defense Policy

OW1705184490 Tokyo MAINICHI DAILY NEWS in English 16 May 90 p 2 –FOR OFFICIAL USE ONLY

[Editorial: "A Shift in Defense Policy"]

[Text] With the East-West confrontation fading away, the United States, the Soviet Union and other powers are seriously studying post-Cold War security. Although we should remember that security through nuclear deterrence and qualitative arms expansion by modernized weaponry still continues, we should appreciate that Washington and Moscow, the protagonists of the Cold War, have greatly changed their perception of the international situation.

The U.S. Defense Department report on the strategic framework in Asia and the Pacific and the congressional testimony of General Colin Powell, chairman of the Joint Chiefs of Staff, clearly recognize the decline of the Soviet threat in the region and call for a reassessment of the strategy for Asia.

The reflection that the arms race destabilizes international relations and squeezes state finances is taking root among nations, as best illustrated by the planned cuts in troops and defense budgets both by the U.S. and the Soviet Union. The question, then, is how positively will Japan respond to the detente that is now reaching Asia.

On the basis of these conditions, debate on defense is continuing in the Diet, where Foreign Minister Taro Nakayama said the "aggressive factor" of the Soviet Union was diminishing, hinting a delicate departure from the government's rigid stance on a "Soviet menace."

But Japanese Government leaders are still well behind their European and American counterparts in post-Cold War flexibility. Let us make some proposals, then, in the hope that they will benefit defense debate that is convincing to the people.

First, the government should freeze or cut the defense budget. Japan's defense spending has been rising at an annual rate of 5 to 6 percent and has reached third place in the world, according to one estimate, after the U.S. and the Soviet Union. Any further build-up is likely to arouse concern among our Asian neighbors. Even Washington is becoming wary of this. For fiscal 1991 the government should review the entire defense budget and start rationalization.

Second, the government should amend the next medium-term defense plan due to start from fiscal 1991 in its entirety, with an aim toward contraction.

The Defense Agency is reported to be expecting the new plan to run for five years, as with the preceding one, with a total outlay of 23,500 bullion yen. The policy is to set a ceiling on defense spending by maintaining the current formula of citing only the total of the planned expenditure.

But under the present conditions, to fix an outlay for five years is tantamount to increasing the defense budget rather than putting the brakes on it. A return to the single year budget seems to be the more rational way to flexibly respond to the situation. It goes without saying the defense spending should be kept within 1 percent of the GNP. In addition, it is important to make clear the ideals of our future defense.

The Defense Agency emphasizes its adherence to the "basic defense capability initiative" for the purpose of exclusive defense, but does admit that its contents may vary according to progress in military technology and advance in arms control talks. In step with detente, the entire defense planning, including the introduction of the AWACS, an early warning aircraft, and tanker aircraft, should be reassessed.

Third, the government should review the Japan-U.S. security relationship and water down its military aspect. A possible change in the U.S. view of this relationship was expressed by General Henry Stackpole, commander of Marine Corps bases in Japan, when he told reporters in March, "No one wants a rearmed, resurgent Japan... So we are a cap on the bottle, if you will."

How the planned cuts in U.S. troops and U.S. strategic reassessment in Asia and the Pacific will influence our bilateral security relationship also needs to be studied objectively. Cuts in U.S. bases in Japan and a strengthening of the political character of the Japan-U.S. alliance on the basis of Article 2 of the Security Treaty are possible alternatives.

* Curre..t Account Surplus Expected To Fall

* Structural Problem

902A0169A Tokyo EKONOMISUTO in Japanese 17 Apr 90 pp 12-13—FOR OFFICIAL USE ONLY

[Interview with Keizai Doyukai Chairman Takashi Ishihara by EKONOMISUTO Editor Nobuhiro Shudo; place and date not given; first paragraph is EKONOMISUTO introduction]

[Text] **How Far Will It Fall? Let Us Set Long-Term Goals**

There are even some who say that our country, with no natural resources, "would be an ordinary country if the surplus were at zero." Keizai Doyukai Chairman Takashi Ishihara sounds the alarm concerning the recent rapid and structural reduction of the current account balance.

Speaking Out Meant To Present Problem

[Shudo] You recently expressed your worry concerning the possibility that Japan's current account surplus will hit bottom. What is your real intention?

Ishihara: Our entire country is now running toward surplus reduction. Even though we do not go so far as to say, "Steadily increase imports, " and "decrease exports," I do not think we should continue in that direction. Even MITI [Ministry of International Trade and Industry] is telling us that capital investment not be linked to an increase in production. Well, even if Japan's current account does not soon go into deficit, if the surplus steadily decreases, do we have a goal as to how far it would be good to lower it? Without one, isn't it odd simply to say, "Reduce, reduce"? Well, as for me, I spoke at the time of a press interview about the intention of presenting the problem...but it seems that the response has been greater than planned. (laughter)

[Shudo] The January current account balance went into deficit for the first time in six years. It is said that from February the deficit or reduction in the surplus will continue. You see this trend as structural, right?

Ishihara: I think that it is already structural. It is not a surplus reduction simply from saying, "Let's try buying from foreign countries." In short, the Japanese economy's structural reform has made progress. A domestic demand-led economy, perhaps. Isn't it that Japan has taken the path of steadily increasing its imports, restricting its exports, and only doing technically specific things? If this continues, the surplus will decline naturally. Last year's current account surplus was $57 billion, but there are projections that it will decline to around $30 billion within two or three years. At the study council for the Maekawa Report, of which I was also a member, there was the argument (not made public) that it would be good if we brought our country's current account surplus—then at 3.7 percent of GNP—to about 2 percent. But now it already has the momentum to go below that.

[Shudo] How big is the influence of such overseas direct investment as that in automobiles? What about that as one factor in exports not increasing as before even with a weak yen?

Ishihara: This is also a structural cause. For example, looking at capital movement to the United States, there was previously a great deal of purchasing of U.S. bonds or a great flow of financial and securities capital. Recently, outflows of fixed capital for land purchases and building factories there have been increasing. If it were U.S. bond purchases, the capital would return, but direct investment will not be coming back. In that way, with Japan's foreign direct investment becoming structural, production naturally ends up moving overseas, and there is no longer the reserve energy at home to increase exports. Even if you try to increase exports rapidly, they will not rise much. For the corporations, even if they do not increase exports, they still balance their books in producing abroad.

[Shudo] Hereafter, what about the Japanese and U.S. savings rates moving counter to one another?

Ishihara: Japan from now on will encounter an aged society, and the savings rate will decline. In the United States the baby boom generation is in a productive stage and, furthermore, they are moving into their high-earning forties. In the tax system as well, the United States has begun a policy of encouraging savings and its savings rate will rise. From that point there will be movement in the direction of Japan's current account surplus naturally declining and of America moving in the opposite direction.

[Shudo] By the way, by considering what to do about the constantly growing surplus, we were forgetting about the concept of what would happen if the current account surplus shrank. For the time being, what sort of problems will arise if the surplus disappears?

Ishihara: As expected, will not various effects emerge on living expenses? If the current account balance worsens, the yen will progressively weaken. Import goods will accordingly grow more expensive. Moreover, those imports are increasing. Prices, that is to say, living expenses, will tend to rise, will they not? Then comes problems like aid. Say, for example, "Keep raising ODA (official development aid)" or "Double it," but we will not be able to do that. Japan's global contribution will be effected. We will not even be able to finance the United States as we do now. Japan is now probably in a deficit in its overall balance of payments. Consequently, for that reason alone, sending capital overseas will become difficult.

[Shudo] Can we not say that the foreign exchange market has begun to anticipate the recent weak yen?

Ishihara: I think that the main cause, as expected, is a result of placing much emphasis on the influence on the economy coming from the instability of Japan's government. However, when the foreign exchange market began to expect that the current account surplus was constantly going to decrease, it had to take a view different from before in regard to Japan's fundamentals. Now I think that perhaps the foreign exchange market has begun to become conscious of that.

[Shudo] What do you think of MITI's establishing import goals for 50 exporting companies and of its import promotion tax?

Ishihara: This is related to what I said at the start, but I think that it will be no good if the policymakers do not hammer out an occasional policy while one-sidedly expressing long-range current account surplus reduction goals. There is various talk from the United States, but if we put forth only short-sighted policies with an eye to the United States, it will tend to create later problems.

Setting Surplus at Two Percent of GNP

[Shudo] So, in your own opinion, what do you think is an appropriate amount for Japan's current account surplus?

Ishihara: I have not thought hard about that point, but at the present stage I am aiming for the consensus of the main members of the Maekawa Report study group for a level of 2 percent of GNP. After all, it is because Japan is a country that has no natural resources. With only a small rise in the price of oil, you have [the surplus] change by $10 billion. Speaking of food, don't we rely on imports for about 60 percent of our caloric base? So I think that it is dangerous if we do not have a minimum surplus as a safety valve.

And another thing is its relationship to U.S.-Soviet detente. With the peace dividend, the world is now moving in the direction of arms reduction, and the United States, too, is trying to reduce its budget deficit. This has an effect on Japan's defense problem. Even if Japan does not increase its level of defense spending, it will not be able to lower it. Because the ratio of military expenditures to GNP until now has been an imbalance of 6 percent for the United States and 1 percent for Japan, we will probably have to pay to some degree the part for which we have been relying on the United States. It will be necessary to preserve a certain level of current account surplus for tanker protection or supporting the self-defense of Japan—that which does not have war as its goal.

[Shudo] Is the Keizai Doyukai also beginning research on the current account issue?

Ishihara: We made the announcement in placing importance on presenting the problem, but I think that hereafter we will try to get down to studying it fundamentally.

* Matures as Creditor Nation

902A0169B Tokyo EKONOMISUTO in Japanese Apr 17 p 14—FOR OFFICIAL USE ONLY

[Article by MITI consultant Shigetaka Muraoka]

[Text] Japan's current account balance went $600 million into the red in January, but there were large seasonal factors in the January figure and it is better not to pay too much attention to them. However, it is certain that the surplus is steadily decreasing. One can say that a domestic demand economy is taking hold.

Speaking of how it has changed structurally, increases in exports are becoming small in scale. Japan's exports grew by 15.7 percent in 1988, but the growth rate fell in 1989 to 3.8 percent. Viewed by its volume base in particular, it has not grown at all in the strong-yen period since 1985. Of even greater importance is foreign direct investment. The overseas production rate of Japanese corporations has nearly doubled from 3.0 percent in 1985 to 5.8 percent in 1989. Even analyzing it in relation to the United States alone, capital goods of plant and equipment and parts were the investments from Japan that grew greatly. From now on these will be supplanted by local production.

For the import side, on the other hand, the increase of manufactured imports is unmistakably progressing. The rise in oil prices, too, is a large factor; it is difficult to think that they will fall rapidly in the future. For these reasons, one can probably say that the structure of the trade surplus shrinking has probably taken root.

If we are speaking about the current account balance, there are two characteristics of non-trade balance. They are the travel deficit and the investment surplus. Looking at 1989, both were on nearly the same scale.

However, calculating Japan's foreign investment return, it does not exceed one percent. Now it is in a period of recovery, so if it proceeds on track it should go to 3-5 percent. If that happens, the inflows in the non-trade balance will increase hereafter. The trade balance will worsen and the non-trade balance will improve. In short, Japan has entered the family of mature creditor nations.

"All Right If There Is No Surplus"

Therefore, I think that, at the trade balance level, it is all right even if there is no surplus. The import promotion policy that MITI is conducting will accelerate that trend and telescope the time [it takes]. In other words, we are buying time with imports. The vitality of Japanese corporations is undoubtedly strong, so is it not all right even with that much of a handicap?

The only thing that worries me is the U.S.-Japan balance. Viewed globally, Japan's current account surplus shrank 28 percent in 1989; in contrast, however, it stopped at a 5.5 percent reduction against the United States. However, if we take [the period] since 1985, the mark and yen each rose about 30 percent against the dollar. America's trade with Japan and that with the EC have moved at the same pace. Since each country's macroeconomic policies have yielded the same effects since the Plaza/Louvre accords, if it continues at this pace, eliminating the U.S.-Japan imbalance should be only a matter of time.

It is difficult to forecast that Japan's current account balance will become zero. It is not that there is any demonstrable basis for it, but the surplus probably will not easily sink under the water. In five years the current account surplus may well be $2 billion, but it could become lower than that.

At that time, the trade balance probably will almost surely not be a large plus. Yet there is no reason for pessimism. It is the appearance a mature trade creditor nation should have. Losing confidence due to overevaluating the foreign balance is more worrisome.

* Surplus of 1-Percent GNP

902A0169C Tokyo EKONOMISUTO in Japanese
17 Apr 90 pp 15-18—FOR OFFICIAL USE ONLY

[Article by International Monetary Information Center Director Tomomitsu Oba; first paragraph EKONOMISUTO introduction]

[Text] **Necessary for Funding Cooperation With Developing Countries as Well**

The shrinking of our country's current account surplus is a structural one. It is not that it will soon become a zero surplus, but the author says that, for Japan, "Isn't a surplus of one percent of GNP necessary?"

Monthly Fall of $2 Billion

The shrinking of our country's current account balance was first noticed in this January's trade balance. It was because the surplus had ended up at nearly zero. If the trade balance is in balance, the current account balance will go into deficit. Comparing this to last year, the trade surplus according to customs clearance statistics in January of last year was approximately $3 billion, so it became a $3 billion reduction. Actually, eliminating such special factors as petroleum prices, the figure is thought to be about $2 billion. Next, February's trade balance also shrank by approximately $2 billion compared to the same month last year. That is to say, basically compared to the year before, the surplus is thought to be like a structure which is shrinking at a rate of $2 billion each month.

If that happens, it will become a surplus reduction pace of $20-25 billion annually. This is rather large when seen as a percentage of GNP. As Japan's GNP is approximately $3 triilion, it means [the surplus] is shrinking by close to 1 percent [of GNP each year].

I do not think that this reduction of the current account balance surplus is a temporary thing. There are various factors but, speaking from the viewpoint of the investment-savings (IS) balance, even though savings are shrinking only a little, investment is growing in Japan's case. Therefore, in view of the equation, we would do well to understand its linkage to the reduction of the current account surplus.

Looking at what has changed compared to a year before, what is extraordinarily clear in the trade area is the change in the price of oil. Looking at the fourth quarter (October-December), payment for crude oil imports was $4 billion in 1988 but $6.2 billion last year. Looking at the import price of oil, it recently has been moving around $18 a barrel but was about $13 a barrel last year. Compared to a year before, [the price of] a barrel has risen $5.

Next is the increase in overseas direct investment. With the advance of the automobile industry into America and then in Europe as well—in anticipation of the 1992 EC unification—various industries came to have production headquarters overseas. At first, when direct investment proceeded, parts from Japan were supplied even after the factories had moved. But due to the policies of the other countries as well, they were replaced by local production and supply. According to the calculations of a certain American economist, the Japanese automobile industry that has advanced into America will probably be furnishing 80 percent of its supplies from American sources in 1992. If that happens, the structure of Japan's trade balance will change even in the area of parts supply.

Furthermore, at the next stage, products produced overseas will replace those that were being exported from Japan to third countries. Then, in the final stage, if those products are exported to Japan from America and Europe, they will come to have a rather large effect on Japan's trade balance.

Necessary Macroeconomic Policy

But as Japan's current account surplus shrinks, it is necessary to note that surplus reduction with America is making hardly any progress.

Speaking of what moves Japan's current account surplus—or America's current account deficit—I think that, as expected, it must be macroeconomic policy. In short, it is the IS balance. In Japan's case, because there is more than enough savings minus investment, the remainder becomes the current account balance. In America's case, because investment is greater than savings, that gap becomes the current account deficit.

Therefore, most important as a prescription are, as expected, financial and fiscal policies. To expand domestic demand, Japan since the Plaza Accord has mobilized its fiscal and financial policies. The change in the foreign exchange market from a strong to a weak dollar added to that, and the current account imbalance is heading towards correction.

For its part, America did not conduct its macroeconomic policy as promised. As the dollar became weak, its effect on the trade balance was only natural. So if macroeconomic policy had been added to that, America's current account deficit probably would have declined a little more quickly. Unfortunately, America tended to rely too much on the exchange rate. In short, while relying on a weak dollar was a plus from the viewpoint of the trade balance, from a financial aspect it ends up selling America's corporations cheaply. It has sunk in that America's real estate—its buildings and land—sells cheaply, which is not too desirable.

So the remaining road left for America—as Japan considers its fiscal and financial policy as macroeconomic policy for the sake of expanding domestic demand—is to mobilize fiscal and financial policy to reduce its current account deficit. If we explain it in terms of the IS balance, Japan's macroeconomic policy is a matter of linking it to the S, but in America's case it is trying to do

work on the S side. A proposal for a tax system preferential to savings (in Japan, the old maruyu—postal savings—system) is in line with that. At the same time, it means doing everything possible to reduce the fiscal deficit.

Recently, Democratic Congressman Rostenkowski put forward a tax increase proposal to achieve a balanced budget. Including consumption taxes such as a gasoline tax, it is a "five-year plan to achieve a balanced budget." For this a spending freeze is also included but, as for the Bush administration, since Bush promised "no new taxes" during the presidential election, he does not mention increasing taxes. The Rostenkowski proposal must be pleasing to him at heart.

America has started moving to correct the current account imbalance. Reducing the fiscal deficit is of course at the top of the list. At the same time, America is also becoming serious about increasing savings with a preferential tax system. This tax system preferential to savings is likely to pass Congress. Then, since Congress is starting a debate with Rostenkowski's proposal as its basis, is there not the potential for it to be realized?

Furthermore, with the end of the East-West Cold War, Americans have the expectation that defense spending can be reduced. In reality, reductions in defense spending might be used to reduce taxes or spending might rise in other areas, but many people now think that since defense spending can be reduced, America's fiscal deficit will probably decline. If the fiscal deficit declines, this entails a reduction in the current account deficit.

Therefore, things are moving in the right direction but, for example, the conditions do not exist for America's current account deficit to disappear within three years. For Japan too, the surplus will not go so far as to disappear within three years. Considering the IS balance for Japan, investment might increase, but I cannot think Japan's savings will fall that rapidly.

As for America's fiscal deficit, I do not think there is necessarily any room for optimism, but there is surfacing a vague mood of optimism that America's fiscal deficit appears to be shrinking. I think that it is being linked to the exchange rate.

Exports Not Rising Even With Weak Yen

I think that the present weak yen has no relation to other aspects of the economy. If we compare America's economic picture to that of Japan, the latter is clearly better. America's growth rate this year may or may not be over about 2 percent; Japan's is 4.5 percent. Therefore the current account balance is in surplus on this side, in deficit on the other side.

Now, speaking of what brought about the weak yen, it is the direction of that change. In America's case, the growth rate in the fourth quarter last year was an annual 0.9 percent, which will rise hereafter. In Japan's case, there is the feeling that the economy has somehow peaked out. After that the economy might hit a plateau or go into a gentle decline, but the thinking is that it has, at a minimum, unmistakably hit its peak. Therefore, corporate earnings too might be passing their peak. The movement in that direction is reflected in the foreign exchange market's sensitivity.

Another thing is the decrease in the current account surplus. There is certainly still a surplus, but the foreign exchange market has already fully taken into account America's large deficit and Japan's large surplus, and is digesting them. There everyone sees where things are changing. If so, the decline of America's current account deficit is a good trend, and the deline of Japan's current account surplus is an improvement, but it is a bad trend from the foreign exchange market's viewpoint. It ends up weakening the yen.

There is the argument that Japan's exports will rise again with a weak yen, but I think that they will not rise so much. Of course, exports for some industries such as electronic goods might rise due to a weak yen, but considering automobiles, steel, and such, the latter will not necessarily rise. There are items that are the object of voluntary export restrictions or various industries whose companies are already moving into America and producing there through direct investment. I do not side with the argument that exports will necessarily rise due to a weak yen.

Surplus of One Percent Necessary

What then will become of Japan's current account balance? Speaking from the viewpoint of the IS balance, I think that it will not become a zero surplus but might end up at about one percent of GNP. Until now, America—the world's largest debtor nation—and Japan—the the world's largest creditor nation—were contrasted with one another. I think that the contrast will hold for a little while, but will come to an end before long. The fact that we took some pride in Japan being the world's largest creditor nation could be the very reason that a current account surplus has appeared each year.

Until this [recent trend], I was saying would it not be good if Japan had a current account surplus of about two percent of GNP? One reason for that is funding cooperation for developing countries. ODA and direct investment are at the center of this, but they require one percent of GNP. We have to cooperate to that extent. The remaining one percent is for direct investment in America and Europe and the financing of America's deficit. Frankly speaking, it is for buying U.S. Government bonds. For this purpose it would be good to have Japan's current account surplus at around two percent of GNP.

The assumption, of course, is that the long-term capital outflow and funding cooperation will be nearly equal to the current account surplus. Of course if we look at the outflow alone, if Japan conducted so-called recycling—taking in funds from such third countries as Saudi

Arabia, for example, and Japanese banks sending the money overseas—it could become quite large. Even so, if we looked at the net situation, the current account surplus figure determines Japan's net funding cooperation numbers.

But considering matters at present, the role of financing America's deficit will undoubtedly diminish in the future. With 1992's EC unification ahead of them, Japan's corporations already have ordinary production bases. In America as well, the automobile industry's corporate advances and the direct investment in America, too, has largely ended.

Considering that direct investment also to some extent is ending and that the financing of America's deficit will not be as great as in the past, the funding cooperation for the various advanced nations of one percent of GNP might shrink. If that happens, it is thought that it would be all right even if the two percent became one percent. This thinking is based on the advanced nations not being a one-way street but being a two-way street, with coming and going, and then cooperation extended to the developing nations based on one percent of GNP will remain. I have begun to think that it would be all right for us not to be too particular about two percent. This point is probably where arguments differ, but....

The Sun Also Sets?

The major problem if this should happen, is that we would be unable to increase the supply of funds to developing countries. Since other advanced countries already are all flat in their aid sums, Japan is the country that must increase funds cooperation to developing countries centering on ODA. But the reduction of the current account surplus shrinks the total size of the funds cooperation. We have to keep that in mind.

In that situation, I think that we must continue to offer soft money centering on ODA to the developing nations. I think that Japan must recognize that this is important even if we sacrifice spending at home. This will mean a debate with the people, discussing the reasons we aid developing countries. And must we not reach a consensus to some degree?

Another point is that expanding the volume of aid as we have done until now will be unreasonable. Because certain projects such as the $65 billion funds flowback initiative will be impossible from now on, we might have to pay more attention to quality in place of expanding the volume [of aid]. To cite an example, we might have to undertake such measures as increasing donations or administering largely untied aid.

Japan's position has unmistakably grown stronger with its capacity for large funding cooperation. Therefore, the Brady initiative for the debt problem, if you ask Europe, is an American initiative with Japanese money. The problem becomes whether we will be able to continue these kinds of initiatives. If so, can Japan undertake initiatives in the place of money? For example, are we capable of such things as a Japanese initiative with European money? This is an area where we must expect the government to act in the future.

In truth, I also want to maintain the position of the world's largest creditor nation. That is because it increases the magnitude of Japan's voice. However, saying that I would like to maintain the position of the world's largest creditor nation, I am asked if I would like to continue to have a large current account surplus.

Simply, looking back over history, England continued to have a surplus for nearly 100 years. America had one for about 40 years. Compared to them, it will be a little too short if Japan's current account balance surplus shrinks at this point.

So saying, such pessimistic arguments as "the sun also sets" are soon voiced, but I do not think that "the sun also sets." However, the position that has been accepted up to now that "The current account surplus will grow larger and larger, so we are capable of any amount of funding cooperation overseas," will certainly end.

Article Questions Value of Trade Surplus

OW0906132790 Tokyo ASAHI EVENING NEWS in English 8 Jun 90 p 3—FOR OFFICIAL USE ONLY

["Economic Globe" column by senior writer Yoichi Funabashi: "Is Japan's Surplus Really 'Useful'?—What To Do With All That Money"]

[Text] The International Monetary Fund (IMF) in early June officially called for higher savings on a global scale, citing the need to provide for the fresh demand for funds and capital from East European countries—and that it may not be desirable for Japan to decrease its account surplus for the next few years. The Japanese Ministry of Finance immediately jumped at this passage, which appeared in the IMF's latest world economic outlook report. Without a moment's delay, the Foreign Exchange Deliberation Council (FEDC), an advisory body to Finance Minister Ryutaro Hashimoto, released a report stating that it was important for Japan to maintain a certain level of surplus in its current accounts. The FEDC opinion, announced in the form of an interim report, was a deliberate flanking move aimed at giving support to the view that Japan's surplus "could be useful."

With the European Community (EC) steadily moving toward integration in 1992 and in the light of the economic reforms under way in East Europe, it is clear that the demand for capital will expand at an ever greater clip and that, concomitantly, there will be need to store up high savings to meet that demand. Otherwise, the flow of international capital would simply shift from the world's developing countries to East Europe, interest rates would start spiraling upward on a global scale, and the present debt-crisis problem would be deteriorated.

And not least, the very backbone of the business prosperity in the world's advanced societies could be shattered. Also, West Germany already has its hands full, for the time being, with the task of shoring up its eastern counterpart's economy. Thus, it is quite understandable why increasingly greater expectations are being placed on "Japan money."

For all that, it is absurd for the Japanese to make a beeline toward supporting the view that Japan's surplus "could be useful" in helping overcome the world's economic ills.

Should Japan insist that its surplus is necessary as a source of aid to East European countries, it is clear that Tokyo eventually will finds itself in a bind where it will have no choice but to recycle capital to the East Europeans. It also bothers us that the Japanese Government's argument sounds as if it wants to say that only a surplus nation has the wherewithal to help the world's poor. In fact, in the recent informal session of the bilateral Japan-U.S. Structural Impediments Initiative (SII) negotiations in Hawaii. Charles Dallara, the U.S. assistant secretary of Treasury for International Affairs, at one point vehemently challenged the Japanese negotiators by blurting out: "Do you mean to say that deficit countries (like the U.S.) should not extend aid?"

The real question is not whether a nation has a surplus in its accounts or is loaded with debts. Rather, the crux of the problem is whether a country has a functioning financial-capital market that is open and permeable enough that, when the chips are down, capital can be procured and made available immediately. In other words, the big question is whether Japan, as a major economic power, is truly equipped with the capability to raise funds in the short-term money market and then recyle them in the form of long-term loans.

Additionally, thought needs to be given to the future effect—including the political reactions that will be triggered—of any further beefing up of Japan's surplus, specifically in light of the strong-dollar, weak-yen exchange-market experience of the past 18 months. Since close to 70 percent of the Japanese surplus is accounted for by its trade with the United States, no small amount which is being recycled into the U.S. economy through investments. All this sudden talk about Japan's surplus being "useful" paradoxically could lead to an argument that the American deficit similary is "useful."

One notices in Washington a strong backlash resulting from the recent spate of "Japan's-surplus-is-useful" arguments. Michael Boskin, chairman of the presidential Council of Economic Advisers, it is said, has raised the question: "Are the Japanese intent on posing a threat to us?"

It goes without saying that the United States itself has to bear the blame for a large share of its problems. If Washington allows its fiscal and current-account deficits to continue unchanged, the U.S. economy could very well end up gobbling up the world's entire savings. On the one hand, the United States seems to be taking the lead in drumming up the flow of capital to East Europe, but on the other, it is the chief culprit in obstructing the global flow of aid funds. Such being the case, it can safely be said that the heavier responsibility of correcting imbalances in external accounts lies with the debtor nations, the United States in particular.

The "Japan's-surplus-is-useful" argument contains the seed of another potentially serious troublesome issue. There are signs the Japanese Ministry of Finance (MOF) started hyping up the "surplus-is-useful" logic as a maneuver to whittle down as much as it can its promise, made in the latest round of SII [structural impediments initiative] talks, to expand the nation's public-investment programs. To begin with, it is necessary for the Japanese Government to increase its public-investment budget, with or without prodding from Washington. Yet, a little bird inside the "surplus-is-useful" argument seems to be telling us that what the Tokyo bureaucrats really want to convey to their Washington counterparts is: "If you keep pressing us to spend more on domestic public investment, we'll have no choice but to cut back on our aid to Eastern Europe. If you don't want that to happen, then give your nod to our surplus."

Even if we were to yield a step and go along with the notion of pushing the "Japan's-surplus-is-good" argument, why is it that the MOF is so charged up about squaring off with its U.S. counterpart in the next round of SII talks? Why didn't it engage in full-dress wrangling with the Americans during the April negotiations? Was it not because the Japanese side, in April, tried to separate micropolicies from such macropolicies as fiscal and finance programs? At a time when the need to link micropolicies and macropolicies is greater than ever, one cannot help feeling that the major obstacle to that is being posed by the MOF's desire to protect its narrow, turf interests.

The curbing of domestic public-investment programs does not necessarily mean that Japan's foreign aid will increase by that much. In fact, unless the quality of Japanese livelihood is further improved, the time eventually could come when Japanese taxpayers will decry their government for "spending our hard-earned money to help improve sewage systems and airports in faraway countries we do not even know, when our own sewage systems and air terminals are still in such a sorry state."

At least for the present-day Japanese, the "surplus-is-useful" logic is not as "useful" as it is made out to be; it is definitely something they could well do without.

Efforts To Redress U.S. Trade Imbalance Urged

OW1905225390 Tokyo THE DAILY YOMIURI in English 16 May 90 p 6—FOR OFFICIAL USE ONLY

[15 May editorial: "Healthy Trade Surplus"]

[Text] The world is beginning to view Japan's trade surplus not as an evil causing trade imbalances but as an

important capital source that can benefit the international community. This was one factor contributing to the yen's appreciation last week. In the 1980s, Japan became the world's largest creditor nation with trade surplus of about $100 billion a year. The world began speaking about "Japan money," but at the same time, this country came under severe criticism for its trade surpluses.

However, the International Monetary Fund (IMF) in its recent global outlook stated it would be inappropriate for Japan to adopt financial and fiscal policies aimed at reducing its trade surplus. The reason was apparent. The world is running out of sources of capital to finance the economic development of Eastern Europe and developing nations. Japan's role as a capital supplier is becoming indispensable.

West Germany and Japan are now two major contributors to the IMF. But West Germany is under strain to finance the economic rehabilitation of East Germany, and Japan's trade surplus is shrinking. There is worry that not enough capital will be available to aid Eastern Europe.

Common Interest

Japanese monetary authorities are pursuing a strategy of raising the rank and voting power of Japan in international organizations as a provider of funds. It is now in the interest of both Japan and recipient nations to keep Japan's trade surplus at an appropriate level.

The Maekawa Report, which urged reform of Japan's economic structure, did not say what percentage Japan's current account surplus should be against its gross national product. However, the report's authors suggested 1.5 to 2.0 percent. But Japan's trade surplus is rapidly declining because of a stronger yen, higher oil prices and the nation's efforts to increase imports. Also, in Japan's booming economy, Japanese firms are increasing overseas direct investment and consumers are saving less, spending more and traveling abroad in increasing numbers.

In fiscal 1989, Japan's current account surplus accounted for 2 percent of its GNP, and it is likely to remain at this level in fiscal 1990, thus reaching the unofficial target of the Maekawa report.

A Proper Scale

It is necessary now to adjust Japan's trade surplus at a proper scale to provide funds for foreign aid and overseas investment. A sizable trade surplus also can maintain the momentum of the rising yen and lower retail prices of imports. A steady trade surplus will be important for our rapidly aging society.

However, it is hard to determine what is a proper or an improper trade surplus. With that surplus shrinking, it is even more necessary to find the correct and wise way to use the trade surplus.

We suggest first that substantial progress is needed in correcting the trade imbalance with the United States, and Japan must continue its efforts in this direction. Also, Japan must make sure that actions it takes to reduce its surplus, will not adversely affect capital assistance to developing nations in Asia. And Japan must urge debtor advanced nations like the United States to increase their citizens' saving rate, while curbing their spending to arrest the global shortage of savings. Specifically, the United States, which absorbs so much capital, must quickly reduce its fiscal deficit.

* Forcasting Exchange Rate of Yen in 1990's

902A0155A Tokyo SANKEI SHIMBUN in Japanese 8 Apr 90 p 7—FOR OFFICIAL USE ONLY

[Article by Noboru Makino, Mitsubishi Research Institute chairman: "Comments on Current Economic Topics"]

[Text] **The Unfavorable Wind of Exchange Rates**

In regard to forecasting for the 1990's, our institute mobilized a few dozen of our leading researchers, and organized their work into a book. We made "Japan" the theme for 1989, and "the world" the theme for 1990. There was a big response, so it became clear to us that the people of the nation in general have a strong interest in "what will happen in the 1990's."

There was some overlap in the themes of the "Japanese edition" and the "World edition," and when we took that out, and checked the changes in the forecast after one year had passed, it was on virtually the same line. But it became clear that the forecast of the exchange rate, alone, was very wrong. In regard to this, the same tendency can be seen not only in the work of our own researchers, but also in the forecasts of other research facilities.

After pegging the rate at $1 = Y260 in the first half of 1985, in the first half of 1988 it fell below Y130, and was pegged at Y127 at the peak of the strong yen. Forecasts of the yen rate for FY89 (published in December 1988) by seven large private-sector research facilities fell between $1 = Y110 and Y120. We, too, forecast Y117, and were expecting a slightly stronger yen of Y100 to Y120 at the end of the 1990's.

However, after entering 1990, conditions suddenly changed drastically. At present it is a level of about $1 = Y160, and there have even appeared voices which say that at the time of the change to the next fiscal year it will be $1 = Y180. Even among our associates, there has been an increase in the number of those who forecast a trend toward a strong dollar in the 1990's, even if there is a certain amount of violent fluctuation.

The theory that an economy's fundamentals influence exchange rates is widespread among economists. But if we look at things from that viewpoint, according to an international comparison of basic data, there has not

been that much of a change. If we use the traditional method called the thesis of price equilibrium, about Y200 to Y400 becomes reasonable. However, one cannot explain the former level of Y120 by this theory.

Depending on Political Factors

It appears that the culprit that made the forecast go wrong is not found in "economic conditions," but in "the political situation." The first is last autumn's "political reform of Eastern Europe." In the end, this domino phenomenon spread even to republics inside the Soviet Union. No one had predicted this. It spawned the kind of sudden changes that shocked even Gorbachev himself. This is clearly a plus factor for Europe and America. There is a strong possibility that military expenditure, which was the biggest burden of the U.S. economy throughout the 1990's [as published, probably means 1980's], will gradually turn toward reduction. Even just in the last fiscal year, money said to be Y30-odd trillion, which surpasses the U.S. budget deficit, was consumed without being put to use. Of course, that is fine, since it would mean world destruction if it were put to use; but it was a big burden for America. It will be important when this money begins to be diverted to use for the people of the nation.

For Europe, too, the wall separating Eastern and Western Europe will vanish, and a unifying effect, symbolized in the unification of East and West Germany, will probably begin to be actualized two or three years from now. It is natural for there to emerge a view of the dollar and the mark as being stronger in the future. On the other hand, in the Asian region the winds of democratization are not blowing, and things remain frozen. Japan is in an isolated situation.

The second is "U.S. politicians' acceptance of a strong dollar." Between the middle of 1985 and 1988 the market value of the exchange rate swung to a yen that was over two times as strong. However, when we tried picking out "strong-yen effects" in that three-year interval in regard to correcting the trade imbalance between Japan and America, there was virtually nothing worth looking at. U.S. politicians who saw that "the strong yen has no effect," accepted a strong dollar, and went on tilting rather toward such other means as structural consultation and application of Super 301 (specification and of and sanctions against unfair trading countries and practices).

In the final analysis, the exchange rate depends strongly on the political situation. The unreliability of such economic approaches as the thesis of the balance of trade and the thesis of price equilibrium will become conspicuous. Watching the present state of the political situation and moves of politicians, the line of the exchange rate being $1 = Y200 at the end of the 1990's is the stronger. Politics transcends the framework of forecasting.

United States

Ministries Drawing Up Plans for Public Works

OW1905154090 Tokyo MAINICHI DAILY NEWS in English 18 May 90 p 7—FOR OFFICIAL USE ONLY

[Text] The Japanese Government has drawn two long-range plans on garbage disposal and public works as part of its promise during negotiations with the United States on removing barriers to trade and investment, according to government sources.

The Health and Welfare Ministry has devised a 10.2-trillion-yen garbage and waste disposal project under a 10-year investment program, while the Construction Ministry has come up with a 280-trillion-yen, 10-year public investment plan to develop such infrastructures as highways, parks in urban areas, and drainage.

The health ministry plans to submit a blueprint for the project to the Economic Planning Agency, charged with drawing up the Japanese program, Saturday and to include it in a final Structural Impediments Initiative (SII) report due in July, according to the sources.

An interim report on the SII released in early April said Japan will specify the aggregate amount of expenditures under a new 10-year comprehensive public works investment plan starting 1991 in the final report. The U.S. initially demanded that Japan increase its annual public works expenditures to 10 percent of its gross national product from 6.7 percent in 1988.

Under the new 10-year investment program, spending on public works will reportedly total about 400 trillion yen, an increase of 50 percent over the figure for the past 10 years.

* Economic Standardization Forces System Reform

902A0174A Tokyo NIHON KEIZAI SHIMBUN in Japanese 23 Apr 90 p 21—FOR OFFICIAL USE ONLY

[Article by Osaka University professor, Iwao Nakatani]

[Text] *(1) The Japan-U.S. Structural Impediments Initiative [SII] talks were not settled "successfully" as was stated in the intermediate report. The future relationship between Japan and the United States will be decided in nothing less than "political negotiations centering on the economy" similar to the Japan-U.S. SII talks.*

(2) In the midst of progressing globalization of the economy, it is becoming more and more necessary to standardize the economic system of each country. To achieve that, therefore, the demand for "opportunities" to reform the system such as was done during the Japan-U.S. SII talks will increase from now on.

(3) The U.S. mistrust of Japan is directed at the method of resolution consisting of murky "situational management" and "directives" of the administrative authorities.

(4) Quite unconsciously Japan has become a "fortress" unto itself. If Japan herself cannot tear down this "fortress" by a reformation of the domestic system, international isolation of Japan cannot be avoided.

Decisive Change in the Meaning of "Friction"

The intermediate report of the Japan-U.S. SII talks has, by hook or crook, been completed. The United States Government has issued a statement expressing its praise in principle of the Japanese response and the relationship between Japan and the United States is in a state of remission. However, it is a mistake to think that because of this the structural discussions have reached a conclusion. The Japanese side should not forget the internal U.S. conditions which make it necessary for the White House to sell the results of the structural discussions aggressively to a Congress which is tending strongly toward protectionism. In reality, making such an announcement by the White House is a conspicuous tendency previously seen whenever a temporary settlement has been reached in some important Japan-U.S. negotiations.

Therefore, it should not be thought that the Japan-U.S. SII talks have ended in "success" as was stated in the intermediate report. It would be better to think that those discussions, while changing in form, will come to comprise a more and more important status. And it can be expected that the direction they take will determine the future relationship between Japan and the United States.

The first reason for this is the totally unexpected change in international political conditions. Through the 1980's when the Cold War structure was firmly in place, the economic and technological prominence of Japan was basically something to be welcomed by the Western countries. This was so because that prominence increased the competitive power of the entire Western alliance toward the Eastern world. However, now that the Cold War structure has been dismantled, the utility of the "solidarity" of the Western countries has disappeared and the expansion of the Japanese economy has become nothing more than a "threat" to the countries of the West. Stated quite clearly, the prominence of Japan has metamorphosed into "something which should be smashed if the opportunity arises."

The important point is that with the dismantling of the Cold War structure, the U.S.-Japan Security Treaty, which was once the vital key to the Japan-U.S. alliance, is no longer "an absolutely necessary contrivance." In place of that, we have entered an age during which the future of the relationship between Japan and the United States will be determined precisely by such "economic-centered political negotiations" as the Japan-U.S. SII talks. And it is this point which makes the "meaning of the Japan-U.S. economic friction" up through the 1980's decisively different from that of the 1990's. Therefore, we must carry out a fundamental revision of our thinking about economic friction.

Second, in the midst of progressing globalization of economic activities, there are conditions which make the standardization of the system of each country even more important. Economic resources such as commodities, capital, industries, information, etc., pass across national boundaries extremely easily. If we consider the economic reality, the necessity to correct as quickly as possible the differences among the systems of different countries becomes even greater. And that necessity will never disappear because retention of system differences will give rise to the problem of international "unfairness" and "imbalance." When seen from the viewpoint of making distribution of resources efficient, retention of differences is something that is not at all advisable.

Some people hold the opinion that negotiations between two countries is not desirable because it violates the spirit of GATT. This might be legitimate on the very simple level of talking about the uniform cutting of tariff rates, but when it comes to the extremely varied, and what is more, complicated question of system standardization, the additional step of initial detailed consideration between Japan and the United States or among the European countries is indispensable.

Continuing efforts to standardize the system on more than 300 items by the European countries, which are aiming at unification of the European Community (EC), can be interpreted to be the necessary process for realization of a borderless era. The very fact that the traditions and culture of Japan and the United States are conspicuously dissimilar makes the disparity in the systems even greater. System standardization between the two can then be expected to be even more difficult to achieve than standardization among the European countries. However, to abandon the effort is not permitted from the standpoint of acceptance of economic globalization. In this sense, the Japan-U.S. SII talks or other discussions for the purpose of correcting the differences in the systems which might take the place of these discussions will continue to be the most important political subject throughout the 1990's.

Adherence to "Situational Management" Disliked by United States

How, then, should the current response of the Japanese Government to this problem be evaluated?

What we must first focus our attention on is the fact that the innumerable repetitions of negotiations have caused the frustration of the concerned parties involved on both sides to reach the height of extremity. The Japanese side feels that the demands of the Americans are limitless. Moreover, in response to the fact that the Americans make demands even about the "most nitpicking matters," the Japanese are experiencing a latent emotional repulsion.

On the other hand, the displeasure the Americans have toward the Japanese Government remains as great as ever. America's distrust of Japan is directed toward "the Japanese disposition to change their attitude in accordance with varying power relationships and in accordance with the shifting winds of circumstances without giving regard to the importance of principles and rules." For example, Japan is always paying lip service to the principle of "free competition." When it comes to the actual resolution, however, the Japanese use many anti-market methods such as situational management and negotiations. The American Government has a strong distaste toward these.

The persistence of the United States in demanding "abolition" of the Large-Scale Retail Store Law at the most recent Japan-U.S. SII talks was the result of the strong distrust of the Americans toward resolution by "situational management" of the bureaucracy. In the face of the persistence of the Ministry of International Trade and Industry, which adheres to "situational management," the American side agreed to wait and see for the present time. This does not mean, however, that the distrust on the American side has disappeared.

Even if, let's say, the Large-Scale Retail Store Law were to be abolished, it would be difficult to imagine that the sale of U.S. products would increase suddenly. It would also be difficult to think that large-scale retail stores backed by American capital would make rapid inroads into the Japanese market. The reason for this is that the problems of the competitiveness of U.S. products and the high cost of land in Japan have not been cleared up. However, as long as Japan selects measures based on "situational management," the blame for the lack of demand for U.S. products and for the unsatisfactory track record of large-scale retail stores will be placed exclusively on the door step of Japan's Government. This is not only extremely disadvantageous for Japan, but will also increase the distrust between Japan and the United States and will prove to be a big minus in the future relationship of the two countries.

Although the United States is said to embrace the "principle of results," this is not so. Since the solutions proposed by Japan are always left up to "situational management" and "directives," "the feeling of confidence in the results" is absent. This is the basic cause of their mistrust. If the Japanese side were to abolish completely the Large-Scale Retail Store Law and leave the result up to literal free competition, the United States would never come complaining about the results. That is the way of the country called the United States. If this point is not thoroughly understood, improvement in the relationship between Japan and the United States is not possible.

Next, we come to the point that Japanese society, when seen through the eyes of Europeans and Americans, appears highly "fortified." That the Japanese Government is not sufficiently conscious of this fact is a problem. Why has Japan become a "fortress"? Let me give you some examples.

First, Japan is a country strongly colored by controls such as regulations, permits, authorizations, and administrative directives. It lacks an administrative system characterized by clear statements and transparency. Japanese society values more highly "situational management" based on conditions of the moment than "principles." There is no doubt that this is a barrier for entry of foreign countries into the Japanese market.

Second, the price of land is at an abnormal level. The price of land in Japan at an average is 130 times that of the United States. If such a difference exists, U.S. real estate and industries appear extremely low-priced in the eyes of Japanese investors. If U.S. investors wish to open an office in Japan, an astronomical investment is necessary.

The third example is the exclusivity of activities carried out by Japanese industries. The word "keiretsu" has now become an established word in the English language. The "kamban system," which substantiates the intimate relationship between companies, has become the synonym for the strength of Japanese industry. If it is almost impossible for foreign companies to participate in this system, nothing can be said but that it is a strongly built "fortress." No matter how strong the Japanese system is, the image of a "fortress" is too much of a negative.

Aim for Overall Profit; Have Politics Make Conversion

The reason that "Japan bashing" has not shown the slightest abatement is that the "fortress image" of Japan held by foreign countries is extremely strong. To wipe away this image of Japan, a bold reformation of the domestic system will be necessary. Simply carrying out what was demanded of Japan at the Japan-U.S. SII talks will be insufficient. What is essential is, for example, a conversion to a clear and concise administrative system, a lowering in land prices, a land reform which would make it easy for industrial advancement into Japan, a policy which would promote participation of foreign industries in the affiliated companies system, etc.

The problem is whether or not such a reformation is possible. Up until now, the major job of Japanese politicians has centered on the protection of the group-oriented profits based on already acquired power. The origin of the identification of Japan as a "fortress" clearly lies in this system. Hereafter, we have to convert to politics for the profit of the whole. How can the dominance of party representatives be held in check? Most likely, basic reformation of the decisionmaking process of Japanese politics would be essential. However, present conditions indicate that not even discussions for planning which would mean reform are being held.

What was garnered in the compilation process of the present intermediate report was the fact that the Japanese people viewed the Japan-U.S. negotiations subjectively without descending to narrow-minded nationalism. The Japanese people understand the shortcomings of the closed nature of the systems of their country. As long as they hold tenaciously to the consciousness that these should be corrected progressively, that consciousness will eventually be reflected in Japanese politics. What is really frightening are those times when the Japanese people descend to nationalism and give those party representatives who pursue group-oriented profits a chance for dominance. Should this happen the isolation of Japan will most certainly be decisive.

Interests of Sides During SII Talks Questioned

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["Otemachi Diary" by Masahiko Ishizuka, NIHON KEIZAI senior staff writer and editorial writer: "Global Ties Are Too Vital To Leave to Bureaucrats"]

[Text] One great irony of today's rapidly integrating and interdependent world is that as business activities go transnational and "borderless," there are more clashes between governments. This means that unless leaders exercise strong will, broad vision and insight, governments are liable to hinder the smooth functioning and expansion of economic activity and to work against general economic well-being. Negotiations between bureaucrats from different governments can make the situation worse.

The recently concluded Structural Impediments Initiative [SII] talks between Washington and Tokyo are a case in point. It is unclear whose interests respective governments' officials represented at the negotiating table.

Look, for example, at the Japanese negotiators. Nowadays it is fashionable to say that Japanese consumers' interests must be accorded greater respect. This was the thrust of Washington's argument when it asked Japan, among other things, to deregulate the retail industry, to tighten antitrust regulations and to increase public investments.

Which ministry, then, represented Japanese consumer interests in negotiations with Washington? Virtually none. What was on the officials' mind was a desire to preserve their own agencies' jurisdictional power. This was little wonder, given the Japanese political economy, which is characterized by a notorious three-way link-up of ruling party politicians, business interests and bureaucracies.

In essence, bureaucrats try hard to protect special interests under their jurisdiction. Well-coordinated, farsighted goals for leading the nation's economy and for representing consumers are lacking. When bureaucrats rate their own jobs in the negotiations, against what and whom do they measure it? How do they know the nation's best interests? There should be more suspicion about this.

On the other hand, there are also doubts as to whose interests U.S. officials represented. While we should not complain about their arguments in support of Japanese consumer interests, many in Japan suspect that they too are representing their own bureaucratic interests and businesses. The real problem seems to be that most people are complacent and prefer to leave the job of working out problems to negotiations between bureaucrats. And most bureaucrats have only limited capacity to find real solutions.

What's important is to reduce the number of issues that are left to bureaucratic negotiation.

One way is to strengthen political leadership so that difficulties stemming from political parochialism can be overcome. Another is to promote dialogue and communications on every level and in every field—politicians to politicians, executives to executives, journalists to journalists, scholars to scholars, consumers to consumers, and so on.

News reports about bureaucrats fighting and haggling for concessions give the public the wrong impression that U.S.-Japan relations are a constant problem. Being overly preoccupied with these issues can blind the public, in both countries, to the entire shape and realities of the bilateral relationship. The role of the government is supposedly diminishing at a time when the free-market economy is triumphing over the state-controlled economy. Under such circumstances, how can we trust bureaucrats to work for the best interests of the nation?

* SII Talks Said Revealing U.S. Vulnerability

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[Discussion between Kanji Nishio, Communications University professor, and Kenichi Matsumoto, commentator: "The Cornered Supreme Ruler: SII Talks are the Scream of 'the Invincible Empire,' America" in special issue "the Reversed Relationship of Japan and America"]

[Text] **America Gave up the Idea of Learning From Japan**

Nishio: It seems to me that there are now two mutually opposing views concerning the present state of U.S.-Japan relations. By chance, the comments of two foreigners were published in the SANKEI SHIMBUN dated 11 and 12 March, and since they symbolize this opposition, I will introduce them briefly.

First, the gist of the statement by Professor Yi Chi-sa of Yonsei University is: "In the Structural Impediments Initiative [SII] talks America is demanding of Japan that it handle problems which America cannot solve. Since it

means trying to change everything from another country's cultural structure to its spiritual structure, it is impossible. Rather, the one which must change its structure is America; is not America trying to corner Japan in spite of this, exactly like America's way of bullying Japan in regard to the China problem just before the Pacific war? Furthermore, Japan, too, while possessing the world's strongest capital and technology, does not make clear where it is trying to go as a country. I worry that if things go on like this, Japan might again allow its emotions to explode, and end up becoming a ghastly monster which will be uncontrollable internationally."

However, on the next day Singapore University Japanese Studies Department head, Sha Qimyo, said "We have already reached the time when, along with opening its markets, Japan must go on rapidly changing its domestic regulations and laws, so America's demands should not be viewed as selfish." Japan should recognize the huge contribution that America made to its postwar recovery, and wake up to the fact that in the future as well, it cannot get along without U.S. support in every possible aspect including security. Moreover, opening of markets will lead to a benefit for the Japanese people, so Japan has no margin for choice."

I think these two views have now surfaced in Japan, too. And, especially people who think about such things are troubled because they understand both views. That is to say, our learning is cultivated based on Europe and America, so we have the ability to look at our own country and judge it with outside eyes. There are certainly many examples in Japanese society where internal order is maintained by excluding outsiders, so one cannot help but agree when this exclusiveness is pointed out that changes must be made based on the principles of the outside world.

However, the reverse of this is that our eyes have also begun to be able to see, at the same time, the absurdity and wretchedness of foreign society, and there are many areas where we feel that America is rather awful, and that Europe, too, has aspects which will be difficult to save. In other words, Europe and America have reached a state where they can not be judged as the standard for Japanese society. If we operate from that viewpoint, we can even say that we must go on protecting Japan's special characteristics. One cannot deny the suspicion that Europe and America are trying to foist off on Japan the bill they have run up because of their inefficient functioning.

Well, it means we will end up in trouble. I feel that the people who are now excercising leadership in Japan must be walking along a precipice dividing these two situations.

Matsumoto: Not only is Japan walking along that kind of precipice, but it seems that America, too, is doing the same thing. For instance, even if one takes what the revisionists call "the thesis of the different nature of the Japanese," and reason that Japan is foreign, so it must be isolated, it must also be concluded that even though it is different, we must go on associating with Japan while being conscious of that difference. I think that this presents a very difficult problem.

Nishio: In the past, in the 1970's, the Japanese, themselves, continued saying that they were a unique people, in the form of "the thesis of Japanese uniqueness." Even then I said that it was foolish for the Japanese, themselves, to state a thesis of Japanese uniqueness, and that they should say that Japan's success was because it was superior in rational, modern competition, and not because the Japanese possess miraculous special characteristics.

There is no doubt that, when the Japanese, themselves, kept making the stupid remark that they were different, Europeans and Americans, which for a time adopted an attitude of learning from Japan, saying such things as "Japan as Number One," gradually stopped learning, and their attitude gradually changed to one of "if we cannot learn, the only move left is bullying; there is nothing to do but exclude those who are different." I was expecting this , and sure enough, at this point the thesis of Japanese uniqueness is being used against us

Particularly when we are looking at German magazines, this change in attitude has occurred in parallel with America, and in November of last year DER SPIEGEL published a special edition which emphasized the Japanese economic threat to Europe. In that edition it used the expression "this Far Eastern nation is the unexpected, abnormal spawn of a peculiar organism that came from a distant star." That is what is being said about us.

Mataumoto: But it is probable that the Japanese, themselves, once they had developed the thesis of uniqueness, viewed it as a different logic from that of Europe and America, and based on Japanese-type principles of organization and modes of behavior inherited from feudal times, and saw it as something that should be overcome. But in the final analysis, while Japan retains some uniqueness, it pursues the same logic of technology, efficiency and economic expansion as Europe and America, and in some areas there are aspects where Japan has overcome uniqueness and succeeded in terms of results. That is, Japan has succeeded by trying to discard and crush its peculiarities and study and pursue the logic of Europe and America.

However, in the period of "Japan as Number One" Europe and America, and America in particular, adopted the idea that "though Japan is different from us, let us learn from Japan," but it soon changed to the direction of "Japan is different, so let us crush it." Should we see this as a "resignation" on the part of Europe and America?

Nishio: I think this is true. In the long run it is impossible to transplant a culture, however much one seeks to imitate the outside form. Is it not probably the case that Americans thought they could do it if they tried, but it

did not function in the same way as in Japan? I think it is precisely for that reason that America's despair in regard to the present situation is very deep. It is as though I can actually hear a scream.

The SII Talks and the Thesis That Roosevelt Eagerly Waited for Japan To Attack America

Nishio: But on second thought, in spite of that, I suspect it is better for us to reconfirm once more, America's tolerance, or broad-mindedness.

My friend who has been in America for a long time working for Sumitomo Corporation recently sent me a letter which said: "America has a characteristic of disposing of an opponent in pro wrestling with an illegal hold when the referee is not looking. The invasion of Panama was an example of this. However, looking back to the time of U.S.-Japanese friction over automobiles, it would not have been strange if the United States had restricted the number of cars imported from Japan, as Italy and France did, but it did not do that; it left it to Japan's self-regulation. In other words, that is how defenseless and foolishly honest America is in its dealings with the nations of the world.

"One may say that this leeway has existed because America was strong, but in a certain sense America is a country that has always been easygoing and tolerant. Anyhow, this country's style is that freedom is the general principle and regulation the exception; in European countries the opposite ideal is strong. In that sense, the Japanese should have a new appreciation of such things, some sympathy for America and gratitude for its tolerance." I think America certainly manifests this characteristic which my friend mentions.

Matsumoto: The manner of understanding "the present" becomes difficult if we consider the leeway to be the result of America's tolerance and the fact that it was strong. If one says that Japan should be tolerant in its own way because it, too, has now begun to grow strong, it will be expected to accept in a suitable manner such people as economic refugees, and will end up without any guiding principles in the matter.

Rather than describing America as tolerant, I think it is a nation open to all peoples and all races, and this is a guiding principle of its culture. I believe that it is fortunate for Japan that America is a country with that kind of guiding principle.

Nishio: That is probably correct. Because America's sense of fairness is, in short, American style, a part of the American psyche. That is correct, and to countries which accept that, America gives most favored nation treatment. It immediately takes MacDonald's and American movies to the Soviet Union, too. It means that America is doing naive things as usual.

Matsumoto: But when I see such things as the invasion of Panama, for example, I suspect it is exactly the same as the "black ships" which came to Japan (and Okinawa in particular) 150 years ago. That is, it is pressing for opening of the country, backed up by military power, gunboat diplomacy, so to speak. If that is the case, I feel that in U.S.-Japanese relations, too, America's logic of gunboat diplomacy has not changed at all during these 150 years.

But looking at Western Europe, such is not the case. England, for example, was on the winning side in World War II, but as I see it, imperialism was also defeated in that war, together with fascism. Therefore, after the war, one colony after the other became independent, so the nations of Europe had to abandon imperialistic diplomatic policy, which might be called the logic of the formation of a great power.

But I suspect that America alone does not know that. Is it not precisely because America has not changed, that even in the SII talks, etc., it wishes to somehow or other confine Japan and to whittle down Japan's economic superiority?

Nishio: Certainly, Americans have no doubt whatsoever that their own justice is the world's justice. Western Europe has at least experienced self-doubt after passing through the ravages of World War I, but America's own sense that it is always right because it is doing holy work has not crumbled at all. In that sense, it may be possible to say that Soviet imperialism retreated in Eastern Europe, and may be forced to retreat in the three Baltic republics, too, but U.S. imperialism has actually not retreated on anything. It may have retreated in Vietnam, but nowhere else. This time, is America not confronting the question of whether or not it will really retreat in Japan?

Matsumoto: I think it "now" becomes a question of the general principle and guiding principle of what Japan, itself, will do. For instance, Prime Minister Kaifu meets with President Bush, and promises to cooperate in the reconstruction of Panama, right. But looking at the Panama invasion—America does not say "invasion," it says that it brought freedom to Panama, that it brought democracy to Panama—but actually it is nothing other than an invasion.

To be sure, it may be good that it brought freedom and democracy. But if the manner of bringing it is in the form of an invasion, it is the same as at the time of the Boxer Rebellion, when the British Army captured Chinese and beat them with rods, saying "they look dirty" or "they do not listen to orders." They said this was teaching them civilization, and called the rods "civilization rods." Is this same thing not being carried on assiduously by America?

Regarding the current SII talks, there is an air of America thinking that since Japan's social structure or cultural structure is a minus even to the Japanese, themselves, it will do Japan the favor of beating it into shape with "a civilization rod." Certainly there is the aspect, which you

mention, of America screaming, but on the other hand, it has not properly given up its own identity or basic and guiding principles.

And even if America is screaming deep within its heart, if we see that on the surface it possesses a sense of ordination, in terms of the result, the very demands at the SII talks begin to approach Roosevelt's policy of provocation in the past. I think there is in America a feeling that it does not matter. In short, America thinks "if we provoke Japan by using Roosevelt's policy of waiting and hoping, it will probably launch an attack on Pearl Harbor; it is best to wait for that, and strike Japan."

Next year will mark the 50th anniversary of the beginning of the war between Japan and America. The SII talks, themselves, have been conducted in an extremely peaceful manner, but I sense that at their root there probably exists in America the logic that it does not matter even if it thrusts at Japan demands that it cannot accept.

Nishio: I wonder if it is not a matter of America thinking that Japan will accept the conditions. America thinks about things in a simple, pithy manner. It will think, "It will probably be difficult, but in the end Japan will probably accept, since we are requesting something on the level of what we, ourselves could accept, and something which, moreover, will be of use in modernizing Japan." In that sense, the argument of the thesis of Japanese uniqueness is a self-centered way of looking at things which completely disregards the fact that America, too, is unique in the world.

But even if I say this, it is useless talk; as Americans, they will think that it is probably possible for Japan to carry out structural reform, and if it does not, it will be because the Japanese are not sincere and intelligent. They probably do not realize that cultural differences are valuable. They believe that Japan's strength is derived strictly from monkey-like imitation of the West, and do not think that its strength is connected in any way with Japan's traditional culture.

Matsumoto: That is true. And precisely for that reason, Americans think, for instance, that the Japanese, too, should delight in large Chrysler automobiles, and that they cannot sell them because someone is interfering unfairly. To put it in an extreme manner, they are totally lacking in the idea that the vehicle which is needed in Japan is not a large car, but a machine for planting rice. If we take it that Americans are incapable of this kind of thinking, which is suited to a local area, it is not technological friction, but really cultural friction. and I think it is friction which was truly bound to come out.

Nishio: Even if we call it cultural friction, it is not the kind of comparative-culture thing that was talked about for a time; it would be permissable to call it "historical friction," would it not? Could not Kaifu, too, go to Washington, and make a clever remark like "Japan, too, certainly has things that it should part with, but its history it cannot part with."

Matsumoto: In other words, it is a difference in the way of building a country, a difference in the way of founding a country. However, postwar Japanese absolutely do not explain on what general and guiding principles their country stands. This is because they have the experience of before and during the war, and when they tried to explain to the world what Japan is, they failed. Therefore, they have operated all this time with the attitude that they do not have any basic principles. But I suspect that unless they explain that, after all, Japan also has general principles, America will be unable to understand why Japan does not try to employ "superior American general principles."

Ideologically, We Do Not Need a U.S.-Japan Alliance

Nishio: Even though U.S. imperialism, which still does not know the misery of defeat, has lost strength, it comes prepared to steamroller a conference, brandishing general and guiding principles. But Japan has the experience of past defeat in war, so it is expected in the future to be thrown into great confusion each time it faces the United States.

At such times, it is very important that Japan assert its own guiding principles in the political arena. On the one hand, it is certainly very important to keep saying "Japan is right, America is committing an injustice," but Japan will have to go on compromising to some extent in policy.

At that time, I think that, as might be expected, the emergence of Germany will probably begin to have a great influence on future world history. At present, in contrast to the fact that America and the other countries of the West are trying to keep Germany within NATO, the Soviet Union opposes that and seeks to make Germany neutral. But the Western side judges that sooner or later the Soviet Union, too, will probably agree to keeping Germany in NATO. Because it thinks that the Soviet Union, too, will no doubt think that a Germany tied to NATO will be safer than a neutral Germany.

This is surely based on the sense that history has returned to a half-century ago before the Yalta setup, and that it is unclear what an independent Germany would do. A fear of a united Germany will materialize if the U.S.-Soviet rivalry really disappears, and similarly, there will be a change in the U.S.-Japan relationship. In the past the Soviet Union, China and the nations of Southeast Asia, have not worried about Japan because America has controlled it, but it is unclear what Japan would do if it threw off its chains.

Because it was defeated in war, Japan lost the exercise of its intentions as a nation, and had to live timidly, watching the expressions of other countries, and for a long time Germany was in about the same situation. But Germany may gradually cease to be timid. Japan, too,

may gradually cease to be timid. I think it will depend entirely on America's attitude.

Just recently Mitsubishi and Benz formed a link, did they not? This is obviously an aftereffect of the FSX [fighter support experimental] uproar. When Japanese companies were rebuked over the FSX, as one might expect, they did not keep silent. Something would have to be done. In this case, it appeared in the form of the "Zero fighter" joining hands with the "Messerschmitt" (laughter). I think America is a bit concerned, nay, far from a bit, it is quite concerned, at having invited this kind of situation.

Matsumoto: It was probably American nationalism which crushed the FSX, but, on the other hand, when the structure of the Cold War began to be dismantled, there began to emerge from Japan, itself, a nationalistic argument to the effect of "do we need the U.S.-Japan relationship, how about returning Japan to neutrality and seeing what happens." Such people as Shintaro Ishihara are saying that; it is saying, in a manner of speech, that Japan does not have to be tied to America, that it would be all right even if it were tied to the Soviet Union, or even if it were to conclude an alliance with Asia.

But that is just an emotional reaction against having been pressed hard by America in a one-sided manner and coming out in an emotional expression, saying that we no longer need America. No thought whatsoever has been given to whether such a strategy would really be possible, has it?

With precisely whom would Japan ally itself if it were not to have an alliance with America? It is inconceivable that we would ally ourselves with Asia, etc. Of course such things as concluding a security treaty with China are also inconceivable, and such concepts as ASEAN or a Pacific Rim economic bloc are reasonable precisely because Japan and America have formed an alliance.

Generally speaking, in its history Japan has not had the concept, itself, of forming military alliances. When it did form them, they generally failed. The Anglo-Japanese alliance was about the only one that was close to a success. If we have learned anything from that, and if we do not need the alliance with America, what kind of alliance relationship would Japan try to build after this? I think it is bad for politicians to go ahead and assert that we do not need the U.S.-Japan alliance without having thought that far ahead.

Nishio: Historically, Japan has lived for thousands of years as a closed country and an isolated country, independent, and not needing to cooperate or harmonize with other countries, so to tell the truth, even now it does not need alliances. I suspect that the Japanese do not understand an alliance in the true sense; it is not even clear whether the U.S.-Japan relationship has been an alliance in the true sense. We just believed that a security treaty dealing with a single task was an alliance, but there is no proof at all whether that alliance was really formed. At the very least, it is doubtful whether it was a close relationship like NATO.

But speaking in terms of the near future, I think that, after all, there is no option for Japan other than the U.S.-Japan alliance. I think that Ishihara, who is a responsible politician, should not have made such rash statements.

Matsumoto: Speaking on the ideological level, it would not matter if there were no U.S.-Japan alliance. Japan would go on independently. In that case, it would be inconceivable for Japan to, for example, become a dominant power and go on making inroads on the world, or have colonies. That is, Japan was once self-sufficent as a nation of farm villages or a rice-growing island nation, so it could never possess the consciousness of a dominant power. It knows this from the history of having failed when, in the past, it tried to go in this direction. If that is the case, when, in the future, Europe and America strengthen their blocs, Japan does not necessarily have to agree that the formation of a bloc, itself, is a universal general principle.

Nishio: Japan has no partner with which to form a bloc, right.

Matsumoto: There is none.

Nishio: Even if America joins with Canada, and the EC reaches agreement, Japan has no way but to go on coping, independent of all of them.

Matsumoto: If one considers such matters as Japan's geographical location, and the difference with the ways in which other countries orginated or the difference with their historical views of nationhood, it is obvious that there is no partner with which to form a bloc or anything similar. Nevertheless, if one brings out the strategic concept that it is all right to abandon the alliance with America, that we will form an alliance with Asia, I think this would be merely an emotional argument.

The Attitude of "We Study Them Precisely Because They Are Different"

Nishio: I will return again to the topic of the SII talks; do you think this is a preparatory stage for making Japan accept impossible demands and then continuing on to the next move? Or do you think that, half from their naive "good intentions," they think it should be possible for Japan to accept these demands, and they will somehow make Japan accept them, and President Bush, too, will be in trouble unless he is able to tell Congress, "Japan is also playing by the same rules"? Which do you think it is?

Matsumoto: Is it not a matter of America, itself, not yet having made up its mind? As in the case of Roosevelt, it is the national purpose to intentionally provoke Japan by the SII talks and wait for it to explode; I do not think that they have planned it as far as going on pushing over and

over. I do not think America has completed enough economic analysis or political analysis to embark on that.

Nishio: It does not necessarily seem this way to me either, that America is conducting the SII talks for the purpose of "trapping Japan," so to speak. Moreover, the U.S. Government probably does not have enough resolve to do that. I am not speaking optimistically when I say this, because the one that will be in trouble if it drives Japan into a corner is America. The U.S.-Japan relationship, itself, has become very tight, so there is no way for America to cut the relationship of interdependence and be able to go on living. In point of fact, in regard to the objective of the SII talks, America is also saying that Japan need only clarify general principles.

Matsumoto: Yes. But I think that the manner in which both sides are parrying, has already taken a form of which one may say "the mood is already that of a war between Japan and America." If we take that to be the case, Japan's postwar education has explained the recent war in its entirety, saying there was a war between Japan, a fascist evil, and America, a democratic good, and evil Japan lost; and I think it is necessary for the Japanese, themselves, to make it clear that such was not the case.

Nishio: I agree completely. Postwar Japan has treated American democracy like the standard of perfection, as though the general principle of ancient societies that the nation which lost a war always made the gods of the victorious nation their own, still stands unchallenged. But we must somehow reverse the representation that it was us who committed a crime.

That is not our nationalism, or neonationalism or anything. I worry that the exact same thing will be repeated unless we do it now for the future.

Matsumoto: Next year is the 50th anniversary of the start of the war between Japan and America. I think it is necessary for us to have not only Japanese, but also Americans, investigate once more why that war between imperialisms occurred, and what kind of war it was. It was not just because Japan did bad things; America, too, did a certain amount of unreasonable pushing. As a result, falling for Roosevelt's gambit, Japan attacked Pearl Harbor; and in part America rejoiced greatly at this deed.

I think that in the SII talks, as well, even if they are not clearly aware of it, there is also an element which, as might be expected, is pushing the talks ahead, reasoning that if America takes an action like the oil embargo against Japan, as Roosevelt did, Japan will no doubt again rise up in rage, saying "I can no longer endure insults," and America will strike it as the envoy of justice.

And what is more, even if the demands America has made on Japan in the SII talks are accepted, the U.S. trade deficit will probably not decline by much. At the point in time when that becomes obvious, it is possible that the idea that America will become a mercenary soldier of the Japanese economy will explode. To prevent such an occurrence Japan must not become a dominant country, nay, the very idea that dominant countries operate "the game of world history" must be overcome.

At the same time, America should probably recognize the reality that gunboat diplomacy, and the military power which supports it, are crushing its own economy. Japan ended up setting military power at a minimum because of the failure in that war. In that sense, Japan has learned from war. It is necessary for America to confirm that it, too, has learned this lesson, looking back to the question of why the war with Japan occurred.

Not only that, if one says that present-day Japan is only one place in the world, we must also explain the fact that America, too, is one place, large though it may be.

Nishio: America is a very special country. A country with an origin like America is an anomaly in world history, so it is an illusion to say that there are universal values in America. Europe has begun to see itself in relative terms, but America still cannot say that it sees itself in relative terms.

Matsumoto: America, too, is one place; the fact that it possesses a large population, and abundant resources, and has inherited Western European culture, which once believed in its own universality, and is strong, gives the illusion that America is "the world," and that it possesses universality.

Nishio: In the final analysis, the biggest difficulty now is that perception does not catch up with the fact that the power relationship between Japan and America has changed, little by little. Above all, it is very difficult for the side that was once superior to recognize that it is becoming weaker, so it is bound to cling to its former pompous self-image. Is it not necessary to constantly bring up the subject of the illusion from the Japanese side, and constantly toss America the ball of discussion, not in a radical manner, but in some logical and well thought out manner?

Otherwise, the side that was once superior will end up thinking that they will suffer a loss if they cooperate with Japan on anything. Actually, it is to be expected that there are also things which America can learn from Japan. However, Americans are convinced that once they were great, so they had the leeway to cooperate, resigning themselves to suffering a loss, but now they do not even have that much leeway, so they will suffer a loss if they cooperate. But that is not actually the case.

Matsumoto: The best method of allaying the friction would be for America to adopt the attitude of learning from its rival precisely because the rival is different, and by that means turn it to its own benefit.

Nishio: I think Japan must have some sympathy concerning the fact that America is struggling with the great

difficulty of casting off its old self-image. It is a fact that compared with former times, America, itself, is also trying to change, and I think it is enduring humiliations.

And there is also no doubt that, after all, we have enjoyed great patronage. Japan was able to reach this point thanks to the fact that the U.S. market was open. Particularly if you compare Japan and Germany, Germany was surrounded by favored markets, so it soon became the central trading nation of the EC by restoring trade with neighboring countries. But in the case of Japan, immediately after World War II, a revolution occurred in China, and war occurred in Korea. Furthermore, the nations of Asia had almost no purchasing power; so in the end, Japan had no option but to depend on America. In response to this, as might be expected there was an openess in America that greeted Japan in a broad-minded manner. That is a fact. It means that Japan's prosperity today came into being based on that, so we must not forget it. I think the Japanese Government, too, is not so foolish as to forget that.

Particularly in today's U.S.-Japan friction, whatever the case might be if Japan were driven into a corner to the extent that it might perish tomorrow, in the real power relationship, the one which thinks it has been cornered is America. Before World War II, Japan thought that it had really been driven into a corner by oil, finance, etc. Now, Japan has been driven into a corner in logic, but in terms of strength it has not been cornered. Rather, it is America where a sense of being cornered is strong. May we not, therefore, consider this problem with a bit of generousity.

* Suggestion To Abandon SII Talks Raised

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[Article by NHK American Bureau Chief, Yoshiki Hidaka]

[Text] **Mass Media, Mass Hysteria**

There is a monument at a country club in the Washington D.C. suburbs that memorializes the "first golfer killed in the Pacific ar." This golfer was the nephew of the founder of the club and he was killed in the Japanese attack on Pearl Harbor. This small marker is standing unimposingly in an obscure corner of the club that is seemingly overlooked by most people, but I cannot help think that it is filled with a European hatred that says "We will never forget history."

This coming year, 1991, 7 December will mark 50 years since the start of the war. It appears that the mass media in the United States plan to make quite a fuss and will tie this anniversary to the current friction between the United States and Japan, and the television networks have already dispatched investigative teams to Pearl Harbor on a grand scale.

When I hear such things as NBC having dispatched more than 50 staff to Hawaii, I have the feeling that this year the U.S.-Japanese relationship will continue to worsen and that there will be no end to U.S.-Japanese frictions. I have three reasons for making this forecast.

First of all the mass media and the Congress of the United States are now seriously "playing catch" with Japan bashing. It is on its way to becoming the kind of situation that existed at the time of the hunt for Communists by the McCarthy committee. It is one type of mass hysteria: the Congress makes an issue over something, the press reports it widely, and in return, the Congress makes a still bigger commotion.

The game of catch with Japan bashing as the ball started at the end of March at the public hearings held by the Bentsen committee. This committee is investigating the influence of Japanese money on lobbyists and think tanks and the members are relentless in their pursuit. I am afraid that it will develop to the point where previous Japan bashing will appear to have been no more than just getting up to the starting line.

Next, there is the fear that the "evil Japanese" argument will take root all over the United States through its use in the election campaign. There is a strong view in Washington that the increasingly serious friction between the United States and Japan will be a theme in the election campaign this year. A campaign is unfolding to make Japan, the king of the trade surplus, into a bad-guy. This is one-sided Japan bashing with no one to help Japan, and after the election the only thing that will remain will be the Japanese bad-guy image.

Third, hatred of Japan will increase as the economy weakens in the United States in the future.

The other day I met Mr. Greenspan, chairman of the Federal Reserve Board, and he was unusually worried about inflation and showed no sign of any interest in loosening credit. If credit is not loosened, then in time, the United States will have deflation. And, even if there is a recession, the amount of deficit financing in the United States is so large, that they would not be able to increase public investment. As a result, the United States will not be able to recover from a recession without lowering interest rates, cheapening the dollar, and increasing investment from abroad.

That is to say, they will depend on Japanese money. But, if that happens, on the general level the animosity toward Japan for "buying up America" will increase.

No Time For Emotionalism

The future is a domestic problem for the United States, but what is particularly worrisome now is the marked increase in the likelihood that the response of the Japanese side will drive the United States into an "emotional dislike of Japan."

"The attitude has suddenly stiffened that we cannot give you more than this," said a high White House official just returned from meetings with Japanese leaders, and it seems that Japan has flat-out started to display ill-feelings toward "Structural Impediments Initiative [SII] talks" that call for "changing the political and social structure of Japan."

The truth is in Washington that neither President Bush nor the Congressional leadership think that the SII talks are a wonderful political strategy. My friends in the mass media too, assert that "the problem of structural reform of politics or society is for the Japanese themselves to think about and act on. It is not for us to meddle."

Said bluntly, the SII initiative is a second rate strategy dreamed up by second-class bureaucrats in the United States and Japan. Thanks to them, an emotional confrontation has worsened, and Japan has no leeway to be emotional or to be led astray by this kind of stupid strategy.

President Bush is the type to believe he should negotiate and settle the issue by himself and not leave it to the bureaucrats. He also knows that Japan is not a country that moves on the thinking of one prime minister.

The United States and Japan should probably abandon such things as the SII talks and continue discussions between real statesmen from both countries.

Press Reaction to U.S.-USSR Summit Reported

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[Editorial Report] In commenting on the U.S.-USSR summit in Washington, the Japanese press was unanimous in welcoming the outcome of the talks, but was also unanimous in insisting that the time is gone when the two superpowers dominate international politics, and that other nations, particularly Japan, should be given a bigger role in world events.

The Japanese press expressed its interest in the progress and outcome of the recent U.S.-USSR summit by giving prominent coverage to the event while Gorbachev was in the United States. Most newspapers carried editorials on the summit twice during the five-day period—on 3 June welcoming the agreement reached on the Strategic Arms Reduction Talks [START] and on 5 June summing up the summit and praising the improved U.S.-USSR relations in general. Japan's top three mass circulation newspapers, ASAHI SHIMBUN, YOMIURI SHIMBUN, and MAINICHI SHIMBUN, were among those which editorialized twice on the summit.

ASAHI SHIMBUN, the newspaper with the largest circulation in Japan, in an editorial on 3 June, welcomed the U.S.-Soviet joint statement on the reduction and limitation of strategic offensive arms, writing: "Last week's formal statement between Washington and Moscow can be rated highly."

The newspaper cites the reasons for this: 1) "the latest agreement comprises part of a vital structural linkage in the overall nuclear arms reduction negotiations between the two superpowers"; 2) "the fact that both countries have finally reached agreement on signing the START pact by the end of this year reflects a common perception on both sides that neither will be able to construct perspectives for the coming 21st century unless they succeed in making the 1990's a decade of nuclear arms control and disarmament"; and 3) "the coming closer of both countries in many fields should help lessen the sense of doubt and suspicion still mutually existing in the two capitals and, to that extent, should help strengthen the foundations of the START arms reduction agreement."

The editorial also says: "We feel this agreement could be the initial step to bringing about an eventual qualitative reduction of strategic nuclear weapons." The newspaper insists: "As a starter, strategic weapons on both sides need to be further reduced. Both sides should seriously consider ways to arrange for a qualitative control of nuclear arms in addition to numerically halving their existing stockpiles. Moreover, there is urgent need for both superpowers to arrange for total denuclearization of their sea-launched and submarine-launched cruise missiles."

Calling on the United States and the Soviet Union to review the necessity of maintaining nuclear arsenals, the editorial asks: "At whom will the future U.S.-USSR nuclear arsenals be directed? Will nuclear armaments really be effective in bringing about strategic stability?"

In its second editorial on 5 June, ASAHI SHIMBUN praises the economic and other aspects of the talks, and says: "We welcome the emphasis that the Washington summit put on closer economic cooperation, along with the basic agreement on cutbacks in strategic nuclear arms and the signing of an agreement on the reduction of chemical weapons."

Urging the United States to give a new trade agreement to the Soviet Union so that the latter's economy may be internationalized, the editorial says: "There is no denying that the agreement will provide flank support to the Soviet endeavor to develop a market economy, effectively checking moves for a reversal of the tide of reform."

While admitting that many differences remain between Washington and Moscow, ASAHI insists: "Nevertheless, the talks between Gorbachev and Bush have achieved solid results, evidence of the existence of a steady framework of coordination between Washington and Moscow."

In conclusion, the editorial asserts that one of the reasons for the cooperative mood of the two presidents at the summit was their recognition of the two nations' weakening international influence. The editorial takes the opportunity to call for increased participation of Japan in international relations. The editorial concludes

by saying: "In bringing their countries closer together, both presidents seem to have been motivated by a desire to somehow preserve their nations' weakening international influence by shifting from confrontation to coordination. Discerning the limits to which both countries can go, Japan ought to involve itself in the formulation of a broader framework of international coordination."

YOMIURI SHIMBUN, in its editorial on 3 June, says: "We welcome all of the agreements signed Friday [1 June] because they mark the first step toward arms control and closer relations between the United States and the Soviet Union." The newspaper emphasizes: "We earnestly hope that the cooperative relations demonstrated at these talks will prove strong enough to support the upcoming work of constructing a more secure world." "We also welcome the agreement between the United and the Soviet Union to start the second round of strategic arms reduction talks," the paper adds.

Concerning the issue of including a reunified Germany in the North Atlantic Treaty Organization, the newspaper asks: "Taking into account the rapid progress toward Germany reunification, the countries concerned must soon form a consensus on the military status issue.

The editorail closes by saying: "We hope Gorbachev makes an effort to legislate an emigration law and to bring the Lithuanian conflict to a peaceful solution through such steps as lifting sanctions against the republic."

In its 5 June editorial dealing with the summit, YOMIURI SHIMBUN praises the outcome, writing: "We welcome this new, auspicious era in U.S.-USSR relations." While noting that no concrete results were gained in the informal summit at Camp David on questions relating to the unification of Germany, the newspaper says: "It is our opinion that NATO and the European Community, which promote the cause of one Europe, should work together closely to absorb a united Germany and to establish a solid foundation for a new global order."

Citing and interpreting significant remarks of President Bush and Gorbachev, YOMIURI SHIMBUN notes Gorbachev's reference to his scheduled visit to Japan, saying: "We are pleased that Gorbachev has reconfirmed his intention to visit Japan next year to discuss pending issues in the Asia-Pacific region."

MAINICHI SHIMBUN's first editorial on the summit, on 3 June, begins by noting Gorbachev's difficult position in the Soviet Union regarding domestic issues. The newspaper says: "We are relieved to see that both sides have succeeded in arriving at agreements on various issues, despite such unfavorable conditions. We welcome this heartily." "We think we should commend the flexible stand of the United States which stood by its position of cooperating with the other party from the standpoint of 'common interests,'" it continues.

Commenting on the signing of the START treaty, MAINICHI SHIMBUN says: "There is no question about the very important meaning. This will help end ideological confrontation and the East-West cold war from a military strategic aspect." The editorial remarks on the signing of a treaty on chemical weapons, saying: "The treaty on chemical weapons, in particular, has great meaning internationally."

The newspaper highly praises President Bush's decision to accord most favored nation trade status to the Soviet Union, even with a condition attached to it. Explaining the reason for praise, it says: "This proves that the United States has completely stopped regarding the Soviet Union as an enemy. We would like to highly commend the decision of President Bush."

On conclusion of the summit, MAINICHI's 5 June editorial writes about the roles of the United States and the Soviet Union in the post-cold war era. The paper talks about the drastically weakened position of the Soviet Union and the rather reduced status of the United States as superpowers in the world. "We can say that 'the era of the United States and the Soviet Union' as superpowers has ended," it asserts.

The newspaper admits that both countries remain military superpowers, but insists that military power has less meaning than before since the U.S.-USSR relationship has shifted from confrontation to cooperation. MAINICHI emphasizes that the daily is "not underestimating the meaning of the U.S.-USSR summit."

In conclusion, the editorial suggests that it is time that Japan had more say in international politics. The editorial ends by saying: "What is at question is what impact the United States' and the Soviet Union's loss of status as superpowers will bring to Asia. As a result of this situation, Asia has no choice but to have a framework of its own in pursuing peace and international cooperation. But in Asia there is not even an arena where nations can get together for talks as European nations do through their pan-European talks. We welcome the agreement of the United States and the Soviet Union to hold summit talks once a year, but, on the other hand, we hope that the talks will develop into multinational talks in which Japan and Europe can participate."

NIHON KEIZAI SHIMBUN, Japan's largest circulation economic newspaper, in its editorial on 5 June terms the summit a beginning of practical work to transform the relationship of the United States and the Soviet Union from that of a "balance of terror" to that of a "balance of interests."

"This is only a beginning. This is merely the stage of rough sketching in drawing up a picture of a 'new age' promised by the two top leaders at Malta late last year," the economic daily stresses. "If nuclear arms are cut by half, there will be no change in the fact that nuclear deterrence still rules, plus there are so many loopholes in the START agreement," the daily insists.

The economic daily, however, views as important the fact that reductions of strategic nuclear arms have begun, saying: "We hope that the START pact will be signed by the end of this year as promised in the joint statement, and that START II will begin without delay."

NIHON KEIZAI talks about the weakening influence of the United States and the Soviet Union in international relations, saying that developments regarding Germany unification exposed the limitations of the U.S.-USSR system in dealing with international politics. The editorial says: "The weakening of the influence of the Soviet Union is particularly noteworthy. The Washington meeting testifies that the world has entered an 'era of true multipolarism.'"

This newspaper concurs with other newspapers in the view that Japan should participate in international relations more actively in the future. The daily insists: "Seeing the developments in Europe and the domestic situation in the Soviet Union, Japan can no longer regard them as a fire on another shore. With the world situation becoming more complicated than ever, Japan is obliged to participate in these matters requiring knowledge such as that required in solving plural equations."

THE JAPAN TIMES, an independent English-language daily, begins its editorial of 5 June by questioning the superpower status of the Soviet Union, and declares: "The age of superpower diplomacy, in this fundamental sense, may be over."

The daily notes: "Even in decline, the Soviet Union retains its bite. Nevertheless, it was Soviet instability and the growing threats to Mr. Gorbachev's position that encouraged the Bush administration to make generous concessions to Moscow last week on the subject, for example, of strategic weapons."

"Mr. Bush's economic gifts to Mr. Gorbachev also represented a response, not to a new detente but to Soviet weakness," the paper asserts. "On the question of a unified Germany, the two sides agreed to disagree. In another sense, the German question challenged the importance of such summits in an age of relative superpower decline."

The daily adds: "On the plus side, the Washington summit will be remembered for a historic new accord on chemical weapons and for a genuine deepening of the 'spirit of Malta.' But in the end, the most important issue facing the two superpowers was not even on the agenda. We are referring to the increasing ungovernability of the Soviet Union and the relative retreat in recent years of U.S. domination of world affairs."

The editorial concludes by saying: "The bipolarity or hegemony of the two powers, which has characterized international relations since 1945, is visibly yielding to a multipolar world. That is the real message of the Washington summit."

Other Countries

* Current Status, Outlook for Trade With USSR

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[Article by Soviet and Eastern Europe Economic Research Institute research division chief, Takashi Murakami]

[Text] **Foreword**

Japan-Soviet trade, which had steadily increased since 1975, when a commercial treaty was drawn up between the two nations, began to show signs of stagnation in the 1980's. It reached a peak in 1982 ($5.6 billion) and, after that, leveled off. In 1988 it showed signs of recovery and, in 1989, reached the $6 billion mark. However, Japan-Soviet trade accounts for only a small percentage of Japan's total trade, 1.2 percent (1.1 percent of exports and 1.4 percent of imports). Nevertheless, a look at product categories shows that the Soviet Union is a market which Japan cannot neglect. Japan relies on the Soviet Union to a great extent for the export of steel pipe, and for the import of nonferrous metals, fish and shellfish, lumber, and coal. Though the short-term outlook for Japan-Soviet trade is not very bright, looking at the situation in the mid to long term, we can expect the Soviet Union to establish policies which open its markets to foreign trade, by introducing a market mechanism, and to increase opportunities for trade.

Machinery and Steel—The Main Exports to the Soviet Union

Exports from Japan to the Soviet Union are distinguished by a high percentage of steel, and machinery and equipment. In a normal year, these products account for 70 - 80 percent of total exports. Traditionally, the export of manufacturing materials has been especially important, since for many years the Soviet Union has placed great importance on the modernization of domestic manufacturing facilities, with priority on heavy industry. For instance, the USSR has been purchasing automobile-manufacturing equipment, but not automobiles as finished products. This trend began to change slightly in 1989. Faced with a serious shortage of commodities, the Soviet Union rushed to purchase consumer goods from Western nations. The importation of light industry products, including textile products, and household appliances, such as television sets and VCR's has been increasing. However, the standard exports are still steel, and machinery and equipment. What is significant is that exports to the Soviet Union are diversifying from their traditional emphasis on steel and machinery, due to changes from policies emphasizing the production of manufacturing materials to those which place a priority on the production of consumer goods.

Ever since the export of steel from Japan to the Soviet Union surpassed the million ton mark in 1974, the

Soviet Union has become an important trade partner for Japan, after the United States, China, Brazil, and Iran. The sudden increase, after the 1970's, in steel exports was due entirely to a sudden increase in exports of steel pipe. The fact that the Soviet Union looked to the foreign market for seamless steel pipe for use in excavations, and large-diameter line pipes for natural gas, for its oil and natural gas development project in western Siberia, led to the sudden increase in Japan's exports of these products. For steel pipe alone, the Soviet Union is the most important destination, accounting for 38 percent of Japan's steel pipe exports in 1986, and for more than 30 percent, continuously, between 1986 and 1988. However, simultaneous with the completion of the main line of the Soviet pipeline, there was an overall economic slump, resulting in major cutbacks in investments, and the extensive oil and natural gas development project was forced to a standstill. Furthermore, though Japan regained some of its competitive strength with the export of steel pipe for oil wells to the Soviet Union in 1988, by 1989, exports of these products had shrunk to $396 million, or 53 percent less than the previous year.

The export of machinery to the Soviet Union is very important, accounting for 48.8 percent of total exports to the Soviet Union at the peak in 1978. After that, these exports decreased but, in 1989, recovered to 45 percent. The principal machine products exported are general-purpose machines, which account for 60 percent of all machine exports. Among these general-purpose machines, the percentage of machines for use in construction and mining had traditionally been high, but recently there has been a tendency to break away from dependence on this type of machinery, and a new trend of diversification. The realization of the Japan-Soviet Siberian Cooperative Development Project, and the expansion of plant exports were major contributing factors to the increase in exports of machinery to the Soviet Union in the 1970's. On the occasion of Prime Minister Tanaka's visit to the Soviet Union in the fall of 1973, a series of Cooperative Siberian Development Projects was realized, and these projects became the moving force behind the expansion of exports to the Soviet Union. However, due to advancements in energy-saving methods in Japan and the resulting decrease in requirements for raw materials, and a deterioration in Japan-Soviet relations caused by Soviet military intervention in Afghanistan, Japan's enthusiasm for the Siberian Development Project cooled rapidly.

On the other hand, plant exports to the Soviet Union were at their highest in the late 1970's, beginning when a bank loan for four ammonia manufacturing facilities, a total of $2.5 million, was approved in July of 1975. After that, it seemed as though plant export under government financing would continue to increase but, because of a deterioration in East-West relations and a depressed Soviet economy, no contracts for large plants were made, and up to 1987, there were almost no visible results. The fact that there were no contracts for projects which would lead to the export of a large volume of machinery caused a cooling off of exports of machinery to the Soviet Union. Nevertheless, overall exports of machinery did not decline appreciably, mainly because exports of machinery for construction, mining, and cargo handling, and unit exports of trucks and parts increased significantly. However, in the mid-1980's, even these unit exports suddenly declined.

The export of general-purpose machinery started to increase in the late 1980's, due to a revival of plant exports. A notable trend has been an increase in the export of consumer products, due to a shortage of commodities in the Soviet Union. In the past few years the export of products which stimulate the spread of information and other improvements in consumption and industry, such as audio equipment (color television sets, VCR's, portable cassette players, and CD players), and automobiles and photocopy machines, has steadily increased. This diversification of product categories is essential to the stabilization of exports to the Soviet Union.

Table 1 - Trends in Exports to the Soviet Union (In Units of 1,000 Dollars)

Product Category	1987	1988	1989
Total exports	2,563,284	3,129,901	3,081,678
Foods	1,877	2,380	7,119
Textiles and textile products	110,788	108,470	137,993
Chemicals	334,204	359,509	365,396
Organic compounds	85,798	88,533	96,456
Plastics	167,865	195,012	192,659
Nonmetallic mineral products	15,094	10,931	15,380
Metals and metal products	1,049,507	1,315,808	865,758
Steel	999,146	1,259,654	784,385
Nonferrous metals	8,526	13,497	16,343
General-purpose machinery	540,987	637,875	790,319
Motors	31,191	19,672	25,962

Table 1 - Trends in Exports to the Soviet Union (In Units of 1,000 Dollars) (Continued)

Product Category	1987	1988	1989
Office equipment	7,095	20,330	16,984
Metalworking machinery	89,406	123,464	71,115
Construction, mining machinery	85,504	41,253	28,654
Heating and cooling machinery	22,182	38,894	104,335
Centrifugal pumps	15,517	42,187	84,944
Cargo-handling machinery	60,716	98,684	86,077
Electrical equipment	214,930	289,922	383,070
Heavy electrical equipment	18,851	23,867	12,965
Television receivers	19,103	38,740	56,062
Video cassette recorders	27,783	32,795	69,966
Radio receivers	27,271	16,213	18,125
Communications equipment	7,779	4,615	8,406
Electronics parts (semiconductors, etc.)	3,925	1,463	3,202
Transportation equipment	63,725	136,288	152,737
Automobiles	20,635	63,914	94,545
Buses, trucks	18,826	58,045	59,582
Automobile parts	34,965	15,793	12,644
Ships	1,352	55,607	43,348
Precision machinery	25,183	32,147	60,056
Miscellaneous	206,988	236,571	303,850

(Source) Generated from Finance Ministry trade statistics

Japan's Main Imports from the Soviet Union—Raw Materials and Fuel

Up until the mid-1960's, coal, oil, iron ore, pig iron, and lumber were considered to be the five major categories of products imported into Japan from the Soviet Union. These products accounted for 70-80 percent of total imports. In recent years, pig iron, iron ore, and oil imports have decreased significantly, replaced by nonferrous metals, fish and shellfish, and gold. There has been a diversification into products other than lumber. However, there has been no change in the basic importation pattern for raw materials and fuel.

One of the important products traditionally imported from the Soviet Union is lumber. The importation of lumber from the Soviet Union increased significantly after the late 1960's and, with the realization of the Far Eastern Forestry Resource Development Project (the first phase of the Joint Siberian Development Project), was stable for quite some time. The USSR was an important trading partner for Japan, third after the United States and Malaysia. However, the amount of lumber imported has been showing a decreasing trend, due to the popularization of prefabricated houses and the adoption of new construction materials. As a result, the percentage of total imports accounted for by lumber, which was once more than 40 percent, has declined to 20.7 percent, as of 1989. Since the USSR has established a policy to control the export of lumber (logs), and Japan has decreased the amount it imports and improved its own domestic supply strength, we cannot expect an increase in the amount of lumber imported from the Soviet Union.

The amount of coal imported from the Soviet Union increased rapidly from 2.48 million tons in 1984, to 4.43 million tons in 1986, and to 8.7 million tons in 1989. This significant increase in the volume of raw coal imported from the Soviet Union was due to the realization of the Southern Yakut Raw Coal Development Project, part of the Joint Siberian Development Project. Japan has relied on Australia, Canada, and the United States for more than 80 percent of its raw coal imports, but its reliance on the Soviet Union increased from 2.2 percent in 1984 to 7.2 percent in 1988.

Since the 1970's, the spotlight has been on the importation of nonferrous metals from the Soviet Union. The USSR ranks with Australia, the United States, and South Africa as a trading partner in nonferrous metals. Palladium imported from the Soviet Union accounts for 60 percent of Japan's total nonferrous metal imports. Platinum imports from the USSR, ranking after South Africa, and nickel imports, ranking after Canada, also occupy an important position. Platinum and palladium are used in antipollution catalysts for automobiles, and are products which are indispensable to Japan.

Table 2 - Trends in Imports from the Soviet Union (In Units of 1,000 Dollars)

Product Category	1987	1988	1989
Total imports	2,351,854	2,765,759	3,004,527
Foods	185,093	285,620	249,757
Meat	104	275	480
Fish and shellfish	167,812	269,322	238,651
Raw textile materials	56,725	45,624	77,679
Raw cotton	51,244	34,169	62,317
Raw metals	43,435	38,019	39,563
Raw materials (other than metals)	439,293	647,445	669,243
Lumber	404,755	603,866	623,037
Mineral fuels	436,834	499,829	580,867
Coal	296,998	388,581	449,364
Petroleum products	132,226	104,106	128,134
(Fuel oil)	104,177	87,882	117,635
Chemicals	42,719	56,940	66,853
Machinery and equipment	10,819	10,722	9,817
Miscellaneous	1,136,935	1,181,560	1,310,748
Steel	62,274	103,871	166,914
Nonferrous metals	538,126	641,967	794,888
(Aluminum; alloys)	85,518	150,786	174,530
Nonmonetary gold	429,803	335,461	228,576

(Source) Same as Table 1

Though Japan imports an enormous amount of oil—approximately 190 million kiloliters (approximately $18.8 billion in 1988), the amount it imports from the Soviet Union, the major oil-producing nation in the world, is very small. In the past, crude oil was imported from the USSR, but today most of the oil imported from the Soviet Union ($130 million in 1989) is fuel oil for fishing vessels (approximately 800,000 kiloliters imported in 1989).

The importation of large amounts of raw cotton from the Soviet Union began to stabilize in the late 1960's. Raw cotton became a major import, after lumber and coal, in the mid-1970's, and the Soviet Union became a trading partner on equal terms with Egypt and Mexico. However, though raw cotton imports from the Soviet Union in 1989 were double the amount imported in the previous year, they have tended to decrease in recent years.

One category of raw materials imported from the USSR—fish and shellfish—has gained importance recently. The Soviet marine products industry is second only to Japan's, and 40 percent of these marine products are caught in Far Eastern waters. Japan, now excluded from the world's fishing areas, has increased imports of fish and shellfish—from the Soviet Union, in particular.

In the 1980's, the importation of nonmonetary gold showed a sudden increase. This tremendous increase set a record in 1981, when 37 tons ($536 million) were imported. After that there was a decline but, in 1986, there was a resurgence, with 34 tons ($390 million) imported. But with a commodity like gold, there are great annual fluctuations and, in 1989, imports again decreased to 18.3 tons ($229 million).

Thus, products imported from the Soviet Union to Japan diversify as times change. However, whether the importation of raw materials increases depends wholly on Japanese domestic demand. Imports from the Soviet Union increased in 1988 and 1989 because Japan was experiencing a time of prosperity.

The Soviet Union Is Counting On New Forms of Trading—Joint Ventures and Special Economic Zones

As we have indicated, there was little increase in Japan-Soviet trade in the 1980's. The USSR's trade situation worsened, affected by sanctions imposed by Western nations in opposition to Soviet military intervention in Afghanistan. Furthermore, business conditions involving Japan-Soviet trade changed significantly. As a result, Japan-Soviet trade experienced a period of decline during the three years between 1983 and 1985. Also, Japan, fearing a worsening of economic friction with the United States, made efforts to reinforce its observance of COCOM [Coordinating Committee on Export Controls] regulations after the Toshiba Machine incident in 1987. In response to this, the industrial community established self-imposed restrictions, which

may have been excessive, so that potential increases in exports of machinery and equipment to the Soviet Union were solidly curbed. This period was truly a "time of ordeal," with Japan-Soviet trade plagued by external political pressures.

Looking at the future of Japan-Soviet trade, it seems that there is a limit to the extent to which normal, general trade can increase. The Soviet Union insists that for trade between it and Japan to expand, a conversion from traditional forms of trade to new forms is necessary. Joint ventures are a new form of trade about which the USSR is particularly enthusiastic. As of 1 January 1990, a total of 1,274 joint ventures has been established in the Soviet Union. Of these, more than 1,000 have been formed with companies in Western nations. As of 8 December 1989, 1,003 of these joint ventures had been formed with companies in Western nations, 167 in West Germany, 142 in Finland, and 122 in the United States. There are 27 of these enterprises which involve Japanese firms. Though Japan ranks third (as of 1988) in Soviet trade with Western nations, very few joint ventures have been established with Japanese firms. Therefore, whenever an occasion arises, the Soviet Union voices its discontent with Japan's passivity. The difference between Japan's response and that of the Western European powers is manifested by caution on the part of Japanese enterprises. The main concern of Japanese enterprises is whether forming joint ventures with the Soviet Union will be profitable. There are many aspects of the Soviet Union's rules governing joint ventures which are unclear, mainly due to a difference in systems. Also, the Western side has almost no data on business conditions of partner subscribers. Provision of such data is standard practice. Therefore, it is impossible to collect sufficient data to pass even the screening process of major Japanese firms considering such an enterprise. The unknown factors about the Soviet Union are the reason for the hesitation of Japanese enterprises. What about the Western European powers? Firms in West Germany have judged that it is impossible to obtain objective, reliable information, so, to avoid risk, they have made every effort to expend very little capital, and to keep the percentage of their contributions at a minimum. First, they establish the joint venture, and then, using that as leverage, they count on an increase in business. In general, Japanese enterprises do a thorough FS (feasibility study), and then they decide whether to establish a joint venture. In Western Europe, first the joint venture is established, and then an FS is done—here, the difference in philosophy is evident. Since Western nations cannot obtain accurate information, even if they ask for it, their approach is to establish the joint venture and thus gain leverage to obtain information—a realistic approach. The information obtained is absorbed into the enterprise, and is accumulated as experience. In the long run, Japan may fall behind in gaining access to information.

Of the Japan-Soviet joint ventures which have been formed, there is a preponderance of marine product processing ventures (eight). Since Japan has been excluded from the world's fishing regions, it must maintain a long-term, stable supply of resources. It has become particularly important to establish a cooperative relationship with the Soviet Union. The areas in which Japan is likely to profit by establishing joint ventures are those where foreign currency can be acquired through the export of products—namely, processed marine products and lumber. On the other hand, the Soviet Union would like to establish joint ventures in high technology areas—the machine industries, in particular, where it can expect high-level technology transfer. Japan cannot anticipate foreign currency profits in these areas, and there is also the problem of COCOM regulations, so there is very little interest on the part of Japanese enterprises. We must conclude that there is little chance of joint ventures playing an important role in Japan-Soviet trade.

There has been discussion about setting incentives for the establishment of joint ventures in the Far East, but the trend is toward designating special economic zones, where joint ventures are concentrated, to stimulate joint ventures.

In the Soviet Union, debates about the concept of special economic zones became active in 1988. It was clearly stated to be government policy in Secretary Gorbachev's Krasnoyarsk address (September 1988). In this address, Gorbachev expressed his intention to establish "cooperative industrial regions"—in other words, special economic zones. Then, at a cabinet meeting on December 2, 1988, it was decided that special cooperative industrial districts (special economic zones) would be established in the Far Eastern region of the Soviet Union, and it was announced that joint ventures would be concentrated there, with the cooperation of foreign nations. It was determined that suggestions made during the first fiscal quarter of 1989 regarding sites and conditions for special economic zones would be presented at a USSR cabinet meeting.

The Soviet Union's basic concept of a special economic zone is not of the "export processing zone" type seen in developing countries. It is based on activating domestic economic development, and must fulfill the role of establishing a "connection" between the domestic economy and the world market. Therefore, the USSR is not interested in the type of special economic zone which is established as an isolated, extraterritorial base, exclusively oriented toward exporting products manufactured within the zone. The Soviet Union expects a special economic zone to (1) aid in the activation of the regional economy, and to extend its influence to neighboring areas, (2) stimulate the introduction of technology and management skills, (3) increase exports and foreign currency income, (4) supply goods and services to the domestic market, and (5) to attract, in a short period of time, infrastructure and a superior labor force.

It is certain that Nakhodka will be designated as a special economic zone in the Far Eastern region. For the

Nakhodka zone, the USSR intends to allot an administrative district of 311 square kilometers, and part of the adjoining Partizansk district (15 square kilometers). The advantages in choosing Nakhodka are (1) there are sufficient sites to the attract the interest of enterprises, (2) the standard of living there is comparatively high, making it easy for a labor force to take root, (3) it is well-situated as a transportation base, and (4) a large number of proposals for joint ventures have come from Nakhodka. There is still a great deal of discussion needed about many aspects of the Soviet concept of a special economic zone. The chief defect is that this concept has been studied with only the interests of the Soviet Union in mind. Though the main concern should certainly be how to attract enterprises of Western nations to a special economic zone, approaches from this point of view have been completely neglected. The Soviet Union has not done a definitive analysis of the conditions under which Western enterprises would participate, nor has it produced a blueprint for the special economic zones, or made overtures to attract enterprises. What Western enterprises are interested in knowing is whether their participation in a special economic zone will be profitable to them. What they need to make a decision is not abstract ideas about special economic zones, but concrete information about taxes, land costs, the labor force, and the procurement of raw materials. Without concrete numbers, there is no basis on which enterprises can make decisions. If the Soviet Union intends to establish special economic zones, it must first choose a site, and then specify the conditions explicitly, and make positive efforts to attract enterprises.

The Soviet Union has expressed interests in other new forms of trade, such as consortiums, joint production ventures, leasing, and multinational transactions, but these are still in an incipient stage. The Soviet Union must first provide the proper environment, by making its currency, the ruble, convertible, and by acquiring knowledge about Western management.

Fast European Atomic Plant Opposition Viewed

OW1006000390 Tokyo ASAHI SHIMBUN in Japanese 5 Jun 90 Evening Edition p 5—FOR OFFICIAL USE ONLY

[By correspondent Keiji Takeuchi]

[Text] London— East European nations are under pressure to shelve or postpone plans to construct atomic power plants in the face of the eruption of long-oppresed opposition to the plans. The people in these nations have come to debate freely issues involving atomic power plants in the wake of democratization. The debate has been sparked by the people's uneasiness over the safety of Soviet-built atomic power plants. Because many nations in Eastern Europe are suffering from air pollution caused by thermal power plants, their opposition to the atomic power plants is different from that of Western nations. The people in Eastern Europe are voicing their support for the construction of atomic power plants if they are constructed with the use of Western technology. They also are calling for the replacement of existing reactors with Western-made reactors. As a result, Eastern Europe will be a great potential market for Western constructors of atomic power plants.

East European nations have promoted the development of the atomic power generation under the guidance of the Soviet Union, chiefly using the Soviet-made pressurized water reactor (PWR).

Four PWR-type reactors capable of generating 440,000 kilowatts were installed in an East German atomic power plant in Greiswald near the Baltic Sea in the 1970s. A report released by a survey team of the West German Environment, Nature, Conservation, and Reactor Safety Ministry in February this year expressed concern, "pointing to the fragility of the pressure apparatus in reactors" after surveying the East German plant. Soon afterward, the operation of No. 2 and No. 3 reactors were halted. On 1 June, the East German Environment Protection and Water Management Ministry announced suspension of the operation of No. 1 and No. 4 reactors. As a result, the operation of the atomic power plant, which accounts for 10 percent of total power generation in East Germany, came to a halt.

The construction of an atomic power plant in Temerin [as published], Czechoslovakia is being faced with growing opposition from the government of neighboring Austria and the Czechoslovakian people. The Czechoslovakian Government is presently compelled to decide whether to continue on-going construction of No. 1 and No. 2 reactors or to scrap plans to construct No. 3 and No. 4 reactors.

In Hungary, the government adopted "a new energy policy" last November in the wake of democratization and froze any fresh investments in the construction of power plants including atomic power plants in line with the policy. In Poland, the construction of a No. 1 reactor of an atomic power plant in Zarnobichi, which was near completion, has been halted in the face of an opposition campaign. The construction of an atomic power plant in Belene, Bulgaria is known to be undergoing difficulties because of unfavorable conditions concerning location. This January, construction workers went on strike, calling for investigations.

Romania is the only East European nation which has introduced the Canadian Deuterium Uranium Reactor (CANDU). At present, there are no concrete plans for future development of atomic power generation; the new government will decide on them.

Although East European nations are short of funds for the construction of atomic power plants, what the people of these nations are concerned with is the safety of the plants. The atomic power plant in Greiswald, East Germany, which is installed with old Soviet-made PWRs, has no housing containers and no emergency equipment freezing reactor cores.

East European nations have thus far handled information on atomic power generation as a state secret. The Soviet Union failed to provide adequate information on an incident that occurred in the Chernobyl Atomic Power Plant. This has led to growing distrust in and backlash against atomic power generation.

Although East European nations are suffering from air pollution caused by thermal power plants, which generate power using low-quality brown coal, and from an electricity shortage, they are in no position simply to give up atomic power generation.

In this connection, the activities of the International Atomic Energy Agency (IAEA) are pronounced. When a past incident of an East German atomic power plant caused another problem last February, the IAEA sent a survey team to assess the impact of the problem and concluded that the problem was not so serious. An IAEA survey team visited Czechoslovakia from April to May to recheck operational safety of the Temerin Atomic Power Plant even before it went into operation and announced that "the safety of the plant is perfect." Now, the IAEA is playing the role of sending survey teams to member nations to check the safety of atomic power plants in trouble.

In an effort to enhance safety through the introduction of Western technology, Poland is said to have sounded out Siemens Company in West Germany on whether the company can supply reactors on the condition of deferred payment. Czechoslovakia is eager to "introduce safety-related technology from Frasma [name as published] Company in France," (according to a senior official of the Temerin Atomic Power Plant).

In Western Europe, the construction of additional atomic power plants has been sharply reduced since the early 1980s because of an anti-atomic power campaign and a slow growth in power demand. Constructors of atomic power plants presently have difficulty keeping technicians and production facilities. Therefore, East European nations are becoming a promising market for them. Many environmental protection organizations have been formed in East European nations, and they are growing to influential forces with support from their Western counterparts. In the future, Eastern Europe will become a region where the pro-atomic power faction and anti-atomic power faction clash.

Cooperation With GDR Shipbuilding Industry

OW2105114890 Tokyo NIHON KEIZAI SHIMBUN in Japanese 16 May 90 Morning Edition p 11—FOR OFFICIAL USE ONLY

[By reporter Jun Takahashi]

[Text] Rostock (East Germany), 15 May—The leadership of the East German state-run shipbuilding industrial complex disclosed 15 May that it had started talks with Mitsubishi Heavy Industries [MHI] on technological cooperation in manufacturing large engines for use on vessels. By introducing MHI technology, East Germany plans to strengthen its international competitive power in the shipbuilding industry and to improve the situation of the industry's dependence on the Soviet Union for exporting vessels. The two sides have already inspected each other's shipyards and evaluated each other's technology. Since the Mitsubishi Group has just reached an accord with the Daimler-Bentz Group of West Germany on cooperation in the fields of aviation and space technology, it will have strong influence on United Germany's basic industries. Based on the details of the talks, MHI will provide East Germany with a license for large engines for vessels and also highly advanced engineering technology. Based on this license, the East German shipbuilding complex will produce engines and equip multipurpose cargo ships and multipurpose container ships with such engines. These vessels are the complex's major products.

East Germany has 17 industries connected with the shipbuilding complex. Its total annual output value of vessels amounts to 3 billion marks, with 80 percent of the output exported to the Soviet Union. Due to the high percentage of barter trade with the Soviet Union in exchange for iron and steel or other materials, East Germany has decided that if such a situation continues, it would be difficult to develop its shipbuilding industry on a full scale. It has decided to depart from "excessive dependence on the Soviet Union." While reducing imports of iron, steel, and other materials from the Soviet Union, East Germany plans to increase its imports from such Japanese companies as Nippon Steel Corporation and Kobe Steel Corporation.

Political

* JSP Policy Course for Future Examined

902B0104A Tokyo SANKEI SHIMBUN in Japanese 8, 10, 11 Apr 90—FOR OFFICIAL USE ONLY

[8 Apr 90 p 2]

[Text] **A "Manifesto" For Political Power?**

The Japan Socialist Party (JSP) made clear for the first time their plan to adopt a "social democratic" policy course at their regular convention (3 to 5 April). The convention was held to encourage "casting off their old mantle in order to become a party in power." However, the major points of the relationship between socialism and social democracy, and how the course of the party will change by this, remained vague in the discussions at the convention. What are the details of the social democracy of which the JSP speaks? How will it influence their future activities in the political world?

"We would like to consider social democracy in Japan while learning from the experiences of Western Europe."

Thus emphasized Chairwoman Doi in a press interview after the close of the convention. It meant that they

would like to use the social democratic parties of various nations in Western Europe as models.

After World War II, political parties labeled social democratic captured political power with a broad layer of support in West Germany and Sweden. In France and Italy, social democracy was adopted when socialist parties took the seat of political power.

In a short treatise entitled, "Socialist Democracy, Which Is Our Aim" (Nippon Hyoronsha), Doi states the reasons for choosing social democracy.

"There are socialist and social democratic parties in political power in various leading nations of Europe, and they account for a majority also in the EC Parliament." "We cannot strive for harmony in policy between Japan and the EC unless we have a common sense of values on trade, environment, peace, human rights, and related topics."

The Liberal Democratic Party (LDP) leaders point out that "Doi and the JSP's bold venture into an expression of social democracy is no more than a method to take political power." It means that they only have switched slogans since there has been no change in their policy line which aims at socialism.

Indeed, amidst the situation where: 1) the image has become generally widespread that traditional socialism has been defeated due to the democratization of the Soviet Union and Eastern Europe, and 2) the view has begun to appear among the people that "the unrealistic nature of the JSP has not changed," a criticism of the JSP by both the Komeito and Democratic Socialist Party (DSP), the name "social democracy" probably will be an advantage in obtaining the broad support of the people.

The JSP made dramatic advances in the House of Councillors and House of Representatives elections, but both the Komeito and DSP have cynically divorced themselves from coalition government discussions due to "one victory," and the path to political power is still far away. Now that "casting off their old mantle to become a party in power" was taken as the theme of the convention held under these conditions, "a bold transformation," (Doi close associate) is necessary and they have fixed on social democracy as the eyecatcher.

There is opposition to cutting out "achieve a socialist revolution" from the preamble of the bylaws and extolling "the choice of social democracy" by the far-left wing Socialist League and others who say that "the socialist revolution in the bylaws is a peaceful revolution based on parliamentarism and there is no need for a change." Many of the delegates who attended the party convention indicated dissatisfaction in that, "sufficient discussion was not conducted in addition to the vagueness of the definition," but Doi's party machinery pushed it through. The right wing of the party grew in the House of Councillors election, and it can be said that the fact that there are many who desire a change to a realistic, flexible policy backs up the decision of the party machinery.

In the early part of March, former Chancellor Schmidt of the West German Social Democratic Party, which Doi is taking as a model, visited Japan and met with Doi. On that occasion, Schmidt gave the advice that, "Please persevere in promoting socialist democracy. To take political power, you must abandon and wipe out any signs of socialism."

[10 Apr 90 p 2]

[Text] **No Settlement on Specific Program**

If the social democracy promoted by the JSP is not to be considered simply a switch of slogans aimed at taking political power, the details must be made clear. At the party convention, however, the Doi party machinery gave no precise explanation.

"It is the concept of holding justice, fair play, and humanism dear while adhering to a parliamentarian system of democracy and market mechanisms," (Chairwoman Doi).

"The aim of the party is socialism. Social democracy has been chosen as the most democratic method to realize socialism through a parliamentarian system of democracy," (General Secretary Yamaguchi).

In what has been heard so far, a difference in perception between Doi and Yamaguchi can be viewed. For that very reason, Doi stated at a press interview after the party convention that, "the ideal social democracy in Japan will be cultivated at the party's Socialism Theory Center." In other words, they have not yet settled on a definition.

The general concerns about promoting social democracy are probably the two points of (1) Does it mean abandoning the doctrine of socialism? and (2) Will JSP policy specifically be changed by this? If the explanation by Yamaguchi is the official party view, it is the answer to (1).

Originally, social democracy was launched as revisionism against socialism based on Marxism-Leninism in Western Europe. It denies taking power by violent revolution and one party dictatorship and is characterized by social revolution with parliamentarism as the foundation, but it is believed that the aim is to liberate workers according to the Marxist historical view.

In West Germany and Sweden, however, the social democratic parties have separated from Marxism-Leninism, greatly switching in the direction of taking realistic policies as they get close to political power. A proclamation was made at the Socialist Interorganizational Convention held in Frankfurt, West Germany in 1951. However, the JSP, which attended this convention, refused to align with this.

The problem then becomes what is the JSP socialist doctrine? Yamaguchi states that, "social democracy is a form of intensifying the new proclamation which exists as the party platform." That new proclamation was

formed by a compromise between the party right wing and left wing such as the Socialist League which accepts Marxism-Leninism. Words such as "exploitation of workers by capitalists" and "eliminate alienation" are seen in its descriptions and the general view is that, "It is difficult to say that the Marxist historical view will be completely eliminated," (DSP leader).

The Social Democratic Party of West Germany "does not renounce efforts for its own defense like the JSP, and is not opposed to participation in NATO," (LDP leader).

There are some who point out the contradiction that "if it is a social democratic party, then praise of typical communist countries with worship of individuals and dictatorship systems is inconsistent" (DSP leader), seizing the greeting by Doi at the Chosen Soren (General Federation of Koreans in Japan) convention where she said that North Korea (Democratic People's Republic of Korea) is a most democratic and idealistically wonderful socialism."

Former LDP Policy Research Council Chairman Watanabe criticizes, "It is a startling change, in spite of talking until recently of a socialist revolution which was nonsense in the past and will be nonsense in the future." Indeed, no sign can be seen anywhere that there has been a great change in the JSP's nature and policy.

[11 Apr 90 p 2]

[Text] **Focus on Tanabe's Actions**

At the party convention, Chairwoman Doi asserted that "the union of minority party forces" is the major topic for the JSP which is promoting social democracy. However, the response was colder than expected from the DSP, which is considered the number one target of Doi's call.

DSP Policy Board Chairman Nakano points out that, "If the nature of the JSP has really changed, they are inconsistent unless they cut off the forces adhering to Marxism-Leninism."

Due to defeat in the general election, the DSP intends to turn from the JSP-Komeito-DSP route which Chairman Nagamatsu promoted to the direction of strengthening their own uniqueness. JSP General Secretary Yamaguchi referred to "reunification of the JSP and DSP" at a nationwide general secretary conference on 3 March, but no aligned action came from the DSP and it can be said that the current situation is that "no matter how much it is pursued by the JSP, the DSP will flee," (JSP leader).

The response from the Komeito resembles that of the DSP. When Chairman Ishida accepted a visit from Vice Chairman Tanabe who was appointed at the recent JSP convention, they talked for about 15 minutes. According to informed sources, Ishida calmly drove home the nail that "just changing your name (to social democracy) is no good. If its not accompanied by substance...."

Tackling the JSP reorganization of the political world can be called the greatest focus of Tanabe's actions. Tanabe also is called the "LDP-JSP great coalition advocate" linked to the LDP Kanemaru and Takeshita faction boss and the "advocate of a great merger of minority parties excluding the Communist Party and the JSP's far left wing." He advocates a review of the "new proclamation" which is the JSP platform document. At the recent convention, some new Diet members followed the Tanabe line and voiced their opinion that, "We should lay down another new 'proclamation' which specifies social democracy policy."

At a year-end party last year of the "Wednesday Society," the largest party faction which he himself leads, he made note of the fact that the English translation of "Shakai-to" [Japan Socialist Party] should be "Social Democratic Party of Japan" and proposed that "it would be good to change the party name to "Shakai Minshu-to."

Leaders of the Wednesday Society who were at the meeting parried with, "Isn't social democracy being used as a card for reorganization of the political world?" It appears that Tanabe intends to pull the JSP along a realistic path like the West German Social Democratic Party.

Within the party, however, there is strong-rooted opposition to "joining JSP and DSP forces," centering on the left wing groups such as the Socialist League. Concerning the West European form of social democracy in power, the left wing is opposed to "a tilt to the right," saying that "there is right wing social democracy and left wing social democracy and we cannot have as a model a right wing like West Germany, particularly regarding security treaty policy," (League leader) and they will not yield one step on the non-armed neutrality policy line. Their standpoint on the relationship with the DSP is that they are "opposed to drawing close to the DSP," (league leader).

The old Eda faction founded by the late Saburo Eda who left the party in a policy line dispute is the parent body of the Wednesday Society. For that reason, Goro Eda, the oldest son of Eda and a JSP-DSP coalition representative, often attends the general meetings. He was told by those attending a meeting on the morning of 30 March to "return soon [to the party]," and that they "would like him to succeed after Tanabe." Eda just listened with downcast eyes and said, "You've stirred my heart," (attendee).

The view of many within the party is that "Tanabe plans to have a hand in reorganization of the political world after the merger of the JSP and DSP." However, the joining of one political party with another political party is greatly premised on one's agreement on the other's policies in some form. A big job that stands in the way for Tanabe before he can move concretely toward reorganization is the tug of war on policy lines with the left-leaning faction in the party.

* Upper House Coalition Faces Difficulties

902B0110A Tokyo NIHON KEIZAI SHIMBUN in Japanese 22 Apr 90 p 2—FOR OFFICIAL USE ONLY

[Text] With the de facto demise of the coalition of the opposition in the lower house, the upper house coalition (represented by Kozaburo Yamada), which had been urging the Socialists, Komeito and Democratic Socialists to come together, is itself in difficult straits. The coalition had once enjoyed something of a resplendent existence during the upper house elections of last July, when it was instrumental in bringing down the conservatives, and later, when it played a key role in the upper house passage of a bill to abolish the consumption tax. But, with the Liberal Democratic Party's (LDP) victory in the February general elections, its situation changed drastically. In the present session of the national Diet, where the battlefield is drawn in the lower house, the coalition has hardly any opportunity to make itself heard. There is, moreover, growing disharmony between the Socialists and Democratic Socialists, and some members of the coalition are admittedly uneasy about their future. With the centripetal force thus weakening, it faces numerous difficulties ahead.

In Tokyo, on the evening of 19 April, Seigo Yamada, director of the Federation of the General Council of Japanese Trade Unions (hereafter, Federation) that backs the upper house coalition, met with several so-called "neo-new leaders" of the LDP. Deputy Chief Cabinet Secretary Oshima, a close associate of Prime Minister Kaifu, was among those present. At the meeting, Yamada began his remarks by saying, "In the future, the upper house coalition must be guided by principle and exhibit originality. The members are all professionals (lawyers, analysts, etc.). As for our relationship with other parties, we will do well to keep equidistance from all of them." Then, he added, "We would like the LDP to meet with the upper house coalition on a regular basis."

Pervading Powerlessness

Ever since the general elections, the upper house coalition appears to have lost its fire. On 26 March, the day the budget revisions for the first year of Heisei finally passed the two houses, 12 members of the coalition met intermittently throughout the day to discuss their future. The comments such as the following reflect the pervading powerlessness felt by the coalition: "LDP's Secretary General Ozawa ignores the upper house and tries to resolve everything at the lower house level." "The lower house always takes precedent in joint conferences of the two houses. Isn't there any way our views can be reflected in these sessions?"

In point of fact, the frustration felt by the Federation and the upper house coalition at the time of the general elections was immense. They had failed to achieve the main objective of overturning the conservative rule; and, despite their members daily taking turns supporting the lower house candidates in such districts as the 3d district in Gumma, where they had hoped to drag down former Prime Minister Nakasone along with other conservatives, and districts 1 and 2 in Osaka, their only victory came in the 5th district of Hyogo. As a result, criticisms, such as the following directed against the Socialist Party, were openly aired: "The Socialists entered the race unprepared, and, as a result, failed to live up to the expectations of the people."

Under these circumstances, the plans for political restructuring, called for by Chairman Yamagishi of the Federation, are now subject to major revisions. For example, at a joint study session of the members of the upper house coalition and the Federation of Progressive Democrats, held on 18 March in Oiso, Kanagawa, Yamagishi spoke about slowing down the tempo of his restructuring plans: "Within the next 10 years and in small increments, let us try to increase the number of groups that can cooperate with us." With regard to the formation of a new coalition party, he said, "Ultimately, we will look for a large united front that will include liberals from the LDP."

Coalition Is a Mixed Bag of Varying Backgrounds

The relationship between the Federation and the upper house coalition is also shaky. When, after the general elections, the ballots for the prime ministership were to be cast in the Diet, the Federation recommended that blank ballots be cast. The lower house coalition ignored this recommendation and all members cast their ballots for Doi. According to Kazuo Niizaka, "We had no choice but to vote for Doi, in order to take advantage of the upper house success against the ruling party and to set right the faltering LDP." However, some members have criticized that Representative Yamada is partial to the Socialists and, therefore, "lacks flexibility."

The upper house coalition is a mixed bag of 12 lawmakers of varying backgrounds, who were elected with the support of the Socialists, Komeito and Social Democrats. Of the 12, four were lawyers, three from the media, one a former mayor, and four from academia. Only one can claim a genuine background in labor relations. The 12 came together under the banner of "abolishing the consumption tax," but, with the LDP victory in the general elections, they have been forced to acknowledge that they "can no longer rely on the issue of consumption tax alone and must, therefore, adopt realistic approaches by forging dialogues with both the ruling and opposition parties."

In the local elections to be held nationwide next year, the upper house coalition plans to support candidates who are predisposed to the notion of coalition. To that extent, the coalition, at least on the surface, appears in high spirits: "With the image of a 'Green Club' of reformists, we would like to remain as the driving force behind reforms," (Niizaka). However, in view of the opposition's decision to suspend deliberations on power sharing and of the changes in the coalition's posturing,

some members speak of "keeping one leg in the Socialist-Komeito-Democratic Socialist camp, and the other on the fence looking for the opportunity to talk with liberals from the LDP." Still others predict that "should political issues of national interest emerge, there would be opportunities to establish pipelines to the LDP in full view of the public."

An "Insurance" of Sort

Well aware of these situations, the LDP is groping underwater for a plan to "fence in" some of the opposition to regain its strength in the upper house, where, at present, it holds 110 seats. To achieve a majority of 127 seats or more, the plan calls for bringing in 10 from the Democratic Socialist and National Sports Federation, four from the Tax and Peace Group, two Independents—Kiyoshi Nishikawa and Issei Sawada—and two or three from the upper house coalition. Such a plan is seen as an "insurance" of sort, especially in view of the LDP's difficulties thus far in getting the Komeito to cooperate.

One leader of the LDP's Miyazawa faction admitted sounding out two or three in the upper house coalition about switching their affiliations, advising them that "since the winds would not be favorable winds in the next upper house elections, it would be disadvantageous to remain where they are." From the opposition, too, words of caution can be heard: "As things stand, we might lose three or four."

* Parties Begin Debate on Political Reform

902B0124A Tokyo SANKEI SHIMBUN in Japanese 21 May 90 p 2—FOR OFFICIAL USE ONLY

[Editorial: "Penetrating Political Reform"]

[Text] **Similar Excuses**

There is something about the way the leaders of each of the political parties, starting with Ms. Doi, chairwoman of the Socialist Party, speak about "political (election system) reform" that makes us think of the lame excuses of someone trying to avoid paying a bill.

At the conference of party leaders with Prime Minister Kaifu on 15 May, the opposition insisted unanimously that "there are some things that ought to be done prior to any dramatic reform of the election system." They mean that a reform of the fixed number of seats in the Diet and other reforms of the current system should be decided first.

They think the Diet is really quite convenient. The reality of making specious arguments that sound fair and of even more dramatic speech and behavior is that it is a place that can be used as a cloak to hide behind in order to do nothing.

A tremendous amount of time and energy was expended even for the 1984 provisional measure to "increase 8, decrease 7" which was acted on as just an expedient measure. Nonetheless, at that time, a decision was made in the Diet to "wait for the release of the confirmed population figures from the 1985 national census and then to speedily undertake a study of a sweeping reform," but since then, there has been no submission of a concrete reform bill by the opposition.

This time the opposition parties of course oppose a "system that establishes both small election districts and a proportional representation system" as contained in the Eighth Election System Council report and also they express doubts about the propriety of the council as a third party organ. Since they do have these doubts, then let us put a question to the leadership of the opposition parties. During this past year, after the establishment of the Eighth Council, was there an opposition party leader who worked for the establishment of a third-party organ directly under the speaker of the house on the political (election system) reform question in the Diet? In that case, it is necessary that there be an arrangement to follow unconditionally the conclusions that are reached. Is there a party leader who can demonstrate that kind of leadership?

If they are going to be stubborn to the end about resolving the fixed number of seats first, then so be it. The lower house must always be prepared for dissolution, as was the case with the 1984 reform. It would be well to tackle reform of the fixed number of seats immediately with all the parties in agreement, until a sweeping reform is achieved. If they follow a rational, logical and conformable standard, three days would be sufficient to resolve the issue.

It goes without saying that politicians differ from scholars. If they point out the strength and weakness of everything, scholars can function somehow or other. However, since politicians are pragmatists, they probably cannot function if they cannot decide on one choice and then commit to it. They ought not to talk about such things as a counter-proposal that they have neither made nor want to make.

Dearth of Energy

To the extent that we know about the party leaders conference, we are seized with doubts about all the opposition parties—shall we say their internal motivation for political reform is weak, or is it that they lack the spiritual energy to force a plan out from within? Actually, do the opposition parties really have any intention of improving this situation?

It is pathetic that no matter how long one waits, concrete concepts in the debate on creating strong and healthy opposition parties always come only from above, or from the outside.

The advocacy of opposition to the small election district system is a rewarming of an argument that has been used over and over again since the Hatoyama cabinet. In saying such things as "the small election district system

gives the LDP [Liberal Democratic Party] around 80 percent of the seats with around 40 percent of the votes and it aims at a semipermanent monopoly of the LDP" the opposition does not recognize an independent consciousness on the part of the people, and that is nothing more than a contemptuous view of the people.

The Socialist Party, number one among the opposition parties, has not tried to learn anything from the past or from the present. In last year's upper house election why did the Socialist Party exceed predictions and gain so much? We can say that the Socialist Party has not taken into account the message that the people entrusted to it in that election result.

The voters felt keenly the inflexibility and decay of the system of one-party control by the LDP, and moved significantly toward a realization of a political system where mutual competition for the exchange of political control is possible. The people clearly said "no" to the long-term one party control of the LDP. On the other hand, they gave the opposition parties a grace period in the form of the length of time until a general election could be held, a half-year hence, to become an option for an exchange of the reigns of power. The existing opposition parties have not responded to that expectation at all. Perhaps we should say that they are not capable of responding to it. The aim of the council's report was to try to introduce a new way of presenting in elections the clearly expressed intention of the people that will support and emphasize differences in their intent. The criticism by the opposition parties that the council is doing the work of supporting the LDP is an excessive misinterpretation.

Political (election system) reform will control the fate of Diet members and of the political parties, but at the same time, it is an extremely important question that far and away transcends any one party or Diet member. At the least, the selfish argument of loss or gain to "me," and the preconditions debate of the existing political parties should not be discussed at the conference of party leaders. The existing parties say with pride that they are "urban parties," but actually, are they all one party? Former Prime Minister Nakasone said that the "urban white collar worker class is like grains of sand," but the existing parties cannot deal with the appearance of an unaffiliated class with an urban consciousness. They concentrate only on vested interests, and Diet members who only speak on issues of concern to themselves have no right to speak on political reform, and ought not to.

At one time it was said that the distance between the supporters of the Liberal Democratic Party and of the Socialist Party was too great, comparing it to England, and that was one reason given for opposing the introduction of the small election district system, but this still remains a problem only for the political parties. The responsibility of the Socialist Party in particular is great.

We believe that the true meaning of "exactness" of representation is found in the plan of the council's "report" which will further strengthen the possibility of exchange of the reigns of political control and foster strong opposition parties more than in the so-called election system "mirror" theory—the proportional representation system—with its mathematical exactness of the will of the people. But, it will be well to pursue this vigorously after it enters the debate arena. Debating frankly what kind of age it is now and what kind of system is suited to it is what should be decided first.

The opposition political parties should quickly enter the arena of "public debate."

*Rice Farmers Suffer From Political Interference

902B0099A Kyoto VOICE in Japanese
May 90 p 272—FOR OFFICIAL USE ONLY

[Article in "Opinion" column by Setsuji Sakai: "What Is Destroying Japan's Rice Agriculture"]

[Text] Every political party in Japan expresses the position that "as for rice we will not allow even a grain of it to be imported." However, rice farmers feel most uneasy about this position. Farmers also are fully aware of the recent international situation surrounding Japan which has accumulated a large surplus through economic development. They do not think that Japan could get 100 percent agreement on this point in the Uruguay Round negotiations.

This expression of the position by the political parties is reminiscent of the words of cheer uttered by irresponsible military authorities during the last war. Even on the brink of Japan's defeat, they kept saying that there would be "no quitting until the enemy is defeated." A few years ago, government officials promised that "there will be absolutely no beef and orange import liberalization." However, what were the results? No one will again listen to a similar promise. Self-interested motives seem to be hidden in such insistences and utterances and rice farmers are just not interested in them. Rather, they are concerned with how the Japanese Government will cope with the situation when it eventually finds that it must import the American rice.

Japanese political parties and rice farm protectionists frequently say: "In Japan, rice farming is a sort of culture which must be carried on from generation to generation. No measure should be taken to destroy this." As a Japanese, I totally agree with this view; however, the assertion that "no import of rice, even a grain of it, should be allowed" utterly fails to see the situation from the perspective of actively consolidating our important rice farming and developing it into a vigorous industry. For example, I agree with the view that "one's son and heir is a very important being as he shapes the future of the family." Nevertheless, will the son grow up into a fine man if he is simply confined in a room and fed like a chicken to provide protection from the rough dealings of the world? In order to bring him up as a fine son and heir, it is necessary to make him participate in free competitions such as fierce entrance examinations and

athletic sports and train him into a man stout enough to overcome and survive these hardships, is it not? Livelihood is guaranteed for rice farmers through preferential treatment such as huge agricultural subsidies and a tax system dubbed to-go-san [10-5-3] or ku-ro-yon [9-6-4] [both so called by those criticizing the unfairness of the current tax system: For to-go-san, they assert that in levying the income tax under the current system, the salaried worker's income is 10 wari or 100 percent traceable or detectable by the tax administration while the businessman's, 5 wari or 50 percent and the farmer's, only 3 wari or 30 percent; ku-ro-yon means similar detectability rates of 9 wari or 90 percent, 6 wari or 60 percent, and 4 wari or 40 percent for the respective taxpayer categories in the same order.] However, rice farmers are not allowed to compete freely in the agricultural market place so that they might become more efficient.

They said yes when asked to reduce their acreage under cultivation. They said yes when asked not to sell their produce of their own free will. They said yes when asked to buy expensive fertilizers from agricultural cooperatives.

Whoever is young and energetic does not want to live a prisoner's life on the farm devoid of freedom and progress. Therefore, it is natural that girls do not want to marry into rice farm families, consequently leaving many of these families without a heir.

It is desirable that Japan's rice farm families will become aware of the following fact as soon as possible: What is destroying you, rice farmers in Japan, is not the imported rice from the United States which merely totals hundreds of thousands of tons. What is destroying you are Japan's politicians and agricultural and forestry bureaucrats who do not allow you free production and distribution.

Economic

* Decline in Yen Affects Corporate Strategy

902A0156A Tokyo SANKEI SHIMBUN in Japanese 3, 4, 5, 8 Apr 90—FOR OFFICIAL USE ONLY

[3 Apr 90 p 9]

[Interview with Shuichi Kimura, vice president of Nippon Steel, by an unidentified representative of SANKEI SHIMBUN; date and place not given; first paragraph is SANKEI introduction]

[Text] Lowering the official discount rate, the finance minister's meeting with his U.S. counterpart, a Group of 7 [G-7] meeting scheduled to begin this weekend [7-8 April]—despite these desperate moves by the monetary authorities, the yen's decline shows no sign of slowing. Clearly the Japanese economy, which has continued to expand with the help of the "triple merits"—strong yen, low interest rates, and cheap crude oil, is about to face a turning point. One has to wonder whether this could possibly lead to a turn for the worse in our economic situation. We have asked some leaders in industrial circles about the falling yen's impact and how they plan to deal with it.

[SANKEI SHIMBUN] The yen's decline shows no ready signs of abating. If it continues, what impact do you foresee?

[Kimura] The cheaper the yen, the higher the price of crude oil. On the other hand, exports will increase somewhat even though the overall level of exports is down. In the case of our company, even if the exchange rate should reach the level of between 145 yen and 150 yen to a dollar, we will still have net earnings of $400 million to $500 million of year.

[SANKEI SHIMBUN] Are you saying that a cheaper yen gives you more of a tail wind in terms of the earnings?

[Kimura] For the short term I think it is fair to say so. There are many options available to deal with the situation; therefore, this time we need not rack our brains about countermeasures as much as we had to at the time the yen began soaring. But this is a question of degree. We can say that our business performance is not being measurably affected only so long as the yen's slide does not go beyond 150 to a dollar at the worst. We have been taking steps to rationalize our business under the rising trend of the yen thus far; having done so, from a long-term perspective it can be said that a rising yen would still be a preferable trend than a falling yen.

[SANKEI SHIMBUN] How is the current state of the demand for steel materials?

[Kimura] The falling yen, the falling stock prices, and the rising interest rates have so far had no significant effects on the demand. Just recently a guidepost was made public on the steel demand for the April-June quarter; looks to me that the demand for the quarter will reach at least 26.75 million tons. As things stand now, none of our customers, including the automotive industry, are trying to change their previously planned procurement orders.

[SANKEI SHIMBUN] Does it mean that the business outlook warrants no significant concern?

[Kimura] I believe there is a widespread sense of psychological uncertainty. Many of our customers, whom I have talked to, are just about evenly divided in their views about the "triple lows": one group saying the trend will not go any further while the other holding the view that we have not seen the last of it yet. At any rate, what is most troublesome is a severe fluctuation in either direction of the yen's value rather than how high or low the level of the yen's value might be at any given time.

[SANKEI SHIMBUN] The steel industry seems to be fairly aggressive with its plans for investment in plant and equipment....

[Kimura] It is all part of our series of rationalization plans; as such, we have no thought of changing it at this juncture just because the yen's value has declined. But we made sure that flexibility was built into the plan itself. Whether the plan will have to be changed in the days ahead or not will depend solely on external conditions.

[SANKEI SHIMBUN] Do you not foresee difficulties in raising the funds you need?

[Kimura] We plan to invest 1.7 billion yen in plant and equipment during the next fiscal year; this sum, which does not exceed the amount of scheduled depreciation of our plant and equipment for the same period, can be managed with the liquid funds on hand. Since the year before last we have been aggressively raising funds in the capital markets both at home and abroad. Should the price of our stock fall below the convertible price and stay there, the conversion of our bonds to the stock will not make progress. If such a situation should persist until our bonds become due, there is at least a possibility that we may have to secure a new loan in order to raise the redemption fund.

[SANKEI SHIMBUN] In the event that the yen should fall past the 160 mark, would the situation become considerably different?

[Kimura] It will have a favorable effect on foreign demand for our goods—whether this is good or bad is another question. As for the domestic demand, the negative impact of the falling stock price and the rising interest rates on assets will enter the equation in addition to the weak yen; how this combination of factors will affect the domestic demand remains to be seen. But no one can say for sure that the automotive industry, for example, will not be facing diminishing sales ahead. This is what worries me—the possibility that these developments could lead to shrinking investment in plant and equipment.

[SANKEI SHIMBUN] Do you think that the growth of demand for steel materials, too, is headed for a turning point?

[Kimura] For the current year, there is some money left in the supplementary budget; moreover, in the Japanese-U.S. consultations on structural issues, the U.S. side is demanding that Japan spend more money on public works. For these reasons, my guess is that, in comparison with the April-June quarter, the level of demand for steel for the July-September quarter will either increase or hold steady; I do not believe it will decline.

[SANKEI SHIMBUN] What will be the impact of the rising interest rates?

[Kimura] Short-term interest rates have been rising for some time now. As a result, inevitably there will be a tendency to reduce, even by a little, the level of inventories during the distribution stage, for one thing. In terms of the demand for steel materials, there is no denying that the demand level has been somewhat overheated thus far. If the upturn in the interest rates should prove to be a contributing factor toward making the expansionary business trend an enduring one, it cannot be considered all negative by any means.

[4 Apr 90 p 8]

[Interview with Naomi Fujita, senior managing director of Minolta Camera, by an unidentified representative of SANKEI SHIMBUN; date and place not given]

[Text] [SANKEI SHIMBUN] What is the background for the recent decline of the yen?

[Fujita] When the exchange rate reached $1:120 yen it went too far. While the yen was rising, all attention was focused only on the huge trade deficit and budget deficit of the United States, ignoring such other factors as the differential in interest rates between the two countries and the purchasing power parity that represents the real purchasing power of currencies; the result was that the yen's value doubled against the dollar. The exchange rate, if you recall, was $1:250 yen or thereabout just before the Plaza Accord of September 1985, which triggered the yen's upward spiral. Considering the extent of the dollar's decline since then, even if the rate should reach $1:160 yen this time, it would represent a recovery of only a little more than 30 percent on the dollar's part.

[SANKEI SHIMBUN] What, then, would be the optimum exchange rate in your estimation?

[Fujita] I have made it a rule not to predict exchange rates which, I think, are unpredictable. Nevertheless, considering the purchasing power parity between the Japanese and U.S. currencies, I do not think it would be improper even if the yen should fall to the level of 180-200 to a dollar.

[SANKEI SHIMBUN] What would be the impact on exports?

[Fujita] Right now our company's export ratio stands at 75 percent; to an export industry, it is a weak yen that makes life more comfortable. This is not to say that the falling yen has really put us in an advantageous position operationally. It has merely calmed the foul wind down somewhat, so to speak—the wind that has been glowing on account of the unusually strong yen.

[SANKEI SHIMBUN] Do you plan to lower the prices of your exports including cameras?

[Fujita] The prices can be lowered if we wanted to. But when the yen's value nearly doubled we needed to double the prices of exports to break even but we did not; we raised the prices by one and a half times and have been making up the balance through all sorts of efforts within the company. Now, if we are to ease the strain these efforts have put on the company, there cannot be any immediate reduction of prices just because the yen is weakening. But there is a possibility that some companies may take advantage of this opportunity and try to

expand their market shares by lowering prices. This means that you are likely to witness different reactions by individual makers in the days ahead—reactions that will reveal the ulterior motives of each company.

[SANKEI SHIMBUN] What is the possibility that the prices of your products will be affected by the higher prices of the parts you need to import?

[Fujita] "Conservation of resources and raw materials" has been the maxim of our industry; imports have been minimal all along. In the case of our company, we import only a few raw materials such as semiconductors; therefore, it is unlikely that the prices of our products will have to be raised.

[SANKEI SHIMBUN] What about the impact on your overseas production which you have been pushing as a means to counter the yen's appreciation?

[Fujita] At present our overseas production ratio is about 8 percent. Overseas production is by no means an undertaking we have been promoting specifically to counter the rising yen. Its aim is to give ourselves a business constitution that can minimize, in relative terms, the effect of exchange fluctuations of the kind which we are experiencing today; at the same time, it is designed to facilitate the internationalization of our business. Moreover we are looking at our overseas production from a long-term perspective. Thus we will not lightly change our basic policy or strategy simply because there has been on unsettling shift in the yen's exchange rate.

[SANKEI SHIMBUN] How about the impact on your overseas labor cost?

[Fujita] It will rise somewhat, but it will not have any particular impact on our operational strategy.

[5 Apr 90 p 8]

[Interview with Hidejiro Ozawa, managing director of Nippon Oil, by an unidentified representative of SANKEI SHIMBUN; date and place not given]

[Text] [SANKEI SHIMBUN] What is your view on the latest hike in interest rates prompted by the falling yen?

[Ozawa] The raising of the official discount rate is designed to nip inflation in the bud; looking at it from the standpoint of the industrial sector as a whole, the new rate is appropriate. But to the petroleum industry, which is saddled with a large debt, it will have more negative impact than positive. In the case of our company, we have surplus funds of between 800 billion yen and 850 billion yen. Of this, 300 billion yen will directly benefit from the interest rate hike; this is the amount we have in large time deposits. The rest is from equity financing (funds raised through issuance of new stock). The interest we pay on the money we raised is lower than the interest we earn on our deposits; on top of that, the latest interest rate hike will mean additional earnings of some 3 billion yen to our company.

[SANKEI SHIMBUN] In other words, you welcome the interest rate hike?

[Ozawa] Because of factors such as the scheduled easing or abolition of the regulations governing the gas station operations beginning in April, for the second year of Heisei [1991] we will need 50 billion yen or so for plant and equipment investment, which would be about the same level of spending as for the current year. There is, therefore, a negative prospect that circumstances may force us to increase our borrowings; as such, I cannot say that the interest rate hike is nothing but good news for us.

[SANKEI SHIMBUN] How do you plan to manage your surplus funds in the days ahead?

[Ozawa] We have not decided on a specific plan yet. But I foresee rough times ahead for equity financing because of the effect of sluggish stock prices, and we have already gone the limits in floating our company bonds.

[SANKEI SHIMBUN] But your main line of business—petroleum refining and sales—is not making any money for you, or is it?

[Ozawa] Although right now the price of crude oil is slightly on the down side, it is being offset by the yen's weakening trend on the exchange market; if the yen should fall to the level of 160 to a dollar, by a simple calculation it will mean additional burden of some 200 billion yen to our company.

[SANKEI SHIMBUN] Does that mean that you will be forced to rely on non-operating revenue?

[Ozawa] Our non-operating revenue accounts for nearly 80 percent of our current profit, but such a high ratio is the result of our failure to produce adequate profit from our main line of business. We have no intention to indulge ourselves in sophisticated financial management.

[SANKEI SHIMBUN] What about your posture for dealing with new business activities?

[Ozawa] We are already into new materials, biotechnology, and the development of fuel cells, and we will continue to develop new projects in order to complement our main line of business.

[SANKEI SHIMBUN] Your company is engaged in the leasing business through a subsidiary of yours, is it not?

[Ozawa] Even though we are raising our funds at low interests rates, we are not even thinking about letting our main company get into financial operations such as leasing in order to take advantage of the latest interest rate hike.

[SANKEI SHIMBUN] Isn't the difference in financial disposition the cause for the widening disparity between different corporations?

[Ozawa] In our company's case, we have surplus funds as a result of our sustained managerial efforts to build up our own equity capital to get away from the debt-dependent operational mode. As for other companies, I would rather not comment.

[8 Apr 90 p 7]

[Interview with Ko Matsubashi, managing director of the Japan Travel Bureau, by an unidentified representative of SANKEI SHIMBUN; date and place not given]

[Text] [SANKEI SHIMBUN] Such a precipitous and sharp decline in the yen's value will inevitably give Japanese travelers abroad the feeling that things are suddenly more expensive, will it not?

[Matsubashi] It is back to the level of three years ago. In terms of its purchasing power, the yen can still be considered strong, but viewed against the backdrop of the yen's appreciation against the dollar by 50 yen each year since 1985, the decline of 20 yen will unquestionably have a psychological impact. To a Japanese traveler who spends $1,500 abroad, this will mean a difference of 30,000 yen.

[SANKEI SHIMBUN] Will you be increasing the prices for package tours?

[Matsubashi] Under the provisions of the travel business rules, for those package tours announced last fall and good until September of this year the prices cannot be changed for reasons of exchange-rate fluctuations. This applies to those who sign up for these package tours from now on as well. Travel agencies are obliged to absorb the risks attendant to exchange-rate fluctuations for a period of six months.

[SANKEI SHIMBUN] Does this mean that price increases for package tours will come in October and continue?

[Matsubashi] That would be logical. But 60 percent of the cost of a package tour is the airfare which is paid in yen and therefore is not affected by exchange-rate fluctuation. The remaining 40 percent covers hotel and meal expenses abroad, which must be paid in dollars and therefore will be subject to price increases. For instance, a package tour of 6 days and 4 nights to Hawaii, estimated at 300,000 yen last fall when the exchange rate was $1:145 yen, will cost roughly 8,000 yen more at $1:155 yen and about 16,000 yen more if the rate reaches $1:165 yen.

[SANKEI SHIMBUN] In practical terms, how much of an impact are you anticipating?

[Matsubashi] As long as airfare remains unchanged, I do not expect any major, direct impact. But given the falling stock prices and the negative image of the business conditions in general, the possibility cannot be ruled out that people might react with a feeling that "this is no time to travel abroad." I find that possibility more dreadful than the "things are more expensive" feeling or any psychological effect attendant to the falling yen. But, speaking strictly on the basis of the reservations being received for package tours scheduled between now and the coming September, the outlook is very bright. For certain areas the tour reservations are showing an increase of between 15 percent and 20 percent. My guess is that growth of more than 10 percent is a certainty for the current year as a whole.

[SANKEI SHIMBUN] Do you foresee an end to the current boom in foreign travel?

[Matsubashi] According to a survey of public opinion on foreign travel conducted by the Prime Minister's Office, more people—30 percent of those surveyed—cited "the strong yen, which made foreign travel possible at a low cost" as the number one reason for their wanting to travel abroad. The rise in the yen's value has undeniably had much to do with the fact that nearly 10 million Japanese are now traveling abroad yearly. But the thing about foreign travel is that it is addictive: once you acquire the taste for it, it is hard to forget it. Of those who have never traveled abroad, only 16 percent hold an earnest desire to travel to foreign countries; by contrast, 38 percent of those who have traveled abroad want to do it again, very badly. Looking at the number of people who travel abroad as a percentage of the population, in Japan's case it is only 7 percent, which is lower than even Australia's 10 percent and New Zealand's 20 percent. Japan still has a long way to go in this respect: the foreign travel ratio is bound to increase on a continuing basis for some time to come in Japan's case.

[SANKEI SHIMBUN] Do you see a need to change your strategy for the promotion of foreign travel in anticipation of the yen's fall to the level of 160 to a dollar?

[Matsubashi] There is no need to change our basic strategy. Not only have we tried to increase the volume of foreign travel, we have also diversified the contents of our package tour programs. We have established travel agencies specializing in package tours tailored for different groups such as tours for students, tours to remote areas of the world, sport-oriented tours, and tours for older people. We have been making progress in promoting these packaged sales based on a firm assessment of the scope of the market in each of these different areas. Even if the current mood of economic slowdown might have put a damper on some people's travel plans, I like to pin my hopes on the fact that during these past 3-5 years there have clearly emerged certain groups of people with well-defined reasons for wanting to travel abroad.

* Retail Store Law Causes Domestic Friction

902A0167A Tokyo NIHON KEIZAI SHIMBUN in Japanese 12 Apr 90 p 2—FOR OFFICIAL USE ONLY

[Text] At the U.S.-Japanese Structural Impediments Initiative [SII] talks held recently, both Japan and the United States carried out intense parrying over the problem of whether to "abolish" or "continue" the

Large-Scale Retail Store Law. That problem is about to enter a new phase. Shimizu Nobutsugu, chairman of the board and president of a mid-size supermarket in the Kansai region, has taken on the state as his opponent by filing a suit at the Tokyo district court demanding state redress for the restrictions imposed by the Large-Scale Retail Store Law. He claims he had to abandon plans for opening a store in Saitama Prefecture, Shiki City, because of those restrictions. The outlook is for the first hearing to be held at the earliest in May. We followed up on the reactions of people in Shiki City and also the Ministry of International Trade and Industry, neither of which could conceal their perplexity and unease at the filing of the suit.

Due to the unfair application of the Large-Scale Retail Store Law, Life Stores Co., Ltd. has been unable for the past nine years to receive the go ahead for its plans to build a supermarket on the outskirts of Shiki City. If they had in actuality opened a store, they estimate they could have made a profit of 2.86 billion yen. Of that amount, they are demanding redress of 1 billion yen. After filing suit at the Tokyo district court on 30 May, President Shimizu held a press conference during which he divulged that "we plan to disclose various problems in the course of this suit and we shall demand the immediate repeal of the Large-Scale Retail Store Law, a law which will never be recognized internationally."

The Life Stores, alone, have "plans to open about 10 stores on the back burner," (General Affairs Office). In the middle of all this, its present suit has opened the eyes of Japan, the United States and other foreign countries, suddenly drawing attention to this problem. All local officials in Shiki who are facing this problem revealed the same mixed feelings when they suddenly heard they had "to appear at a court hearing...," (Shiki City Chamber of Commerce).

Shiki City is located in the southeastern part of Saitama Prefecture and has a population of 64,000 people. It is a so-called "bedroom community" of Tokyo. It has long been a prosperous commercial center, but in the early 1970's, Daiei and other large chains opened stores, one after another. According to the 1988 commercial statistics of the Ministry of International Trade and Industry, among the 543 retail stores in the city, four supermarkets and shopping centers have a sales area of over 500 square meters. That share (ratio of total sales area) has reached 74.7 percent.

The national average has risen above 50 percent and the above figure represents the biggest share by large stores in Saitama Prefecture. "What will happen to us if the number of large stores increases above this?" (Chairman Aoyagi Tatsuo of the Muneoka United Store Keepers Association representing stores located near the proposed building site). The feeling of crisis engendered among members of the association has spurred on protest activities.

"It is without a doubt a problem that their plans have been shelved over a long period of time. However, I would like them to give some thought to the conditions in this town," (Hosoda Kihachiro—Mayor of Shiki City). This opinion is deep rooted among local residents.

In addition, the Ministry of International Trade and Industry is not at ease. "We will begin to think about coping with the problem after the date for beginning the trial has actually been set." Although this is what they are saying, the ministry office in Tokyo is gathering information concerning the particulars of the store opening.

In fact, the same ministry reached the conclusion that "there is a danger that certification of documents or compensation will have to be presented" when they saw in the fall of 1988 that Life Stores was hardening its attitude, and it was time they began giving serious consideration to the plan.

Ten representatives from the Saitama Prefecture Chambers of Commerce Joint Association, Shiki City, and the Shiki City Chamber of Commerce were called together for a meeting at the Tokyo office of the Ministry of International Trade and Industry to consider whether or not to grant special permission to Life Stores to open a store in Shiki City, a city which had been notified in March of 1984 that it was an "area where store openings would be controlled."

"How about considering the entire area where they are planning to build a store to be a commercial zone independent of Shiki City?" "How about building parking lots, and so on, and presenting the opening of the stores as a local redevelopment model?" In any event, the participants in the meeting agreed to seek to persuade local officials and push forward the plan.

While all of this was going on, revision or abolition of the Large-Scale Retail Store Law itself has come under close scrutiny. A more moderate attitude of the local shop owners, saying they "would like to wait and see how things develop," does not appear to be possible. That is why Life Stores, which had become vexed, filed suit.

In response, the National Shopping Districts Promotion Unions Joint Association vehemently rejected the suit by saying that "it is pernicious propaganda aimed at abolition of the Large-Scale Retail Store Law," (Director General Yamamoto Shoichi). Those businesses such as department stores and supermarkets which should, by the simple nature of things, be expected to be "allies" are trying to hold the line in their response.

The management of a large supermarket in Shikoku which has for the past 10 years struggled with the matter of regulations says, "We are carrying out negotiations in accordance with the way we have always done. We do not wish to cause friction between ourselves and localities or the Ministry of International Trade and Industry at a time when relaxation of the restrictions imposed by the Large-Scale Retail Store Law is progressing."

President Shimizu appeared as an associate of Kobayashi Shigeru (president of Shuwa, a real estate agency based in Tokyo) when the latter advocated reform of the real estate world in the face of stocks being bought up. In addition, Shimizu proposed a "public election system to select the chairman" of the Japan Chain Store Association. In these and other affairs, he has caused, in one way or another, public discussion of the commercial distribution world. There appear to be many people who are resistant to accepting at face value the aim of high-spirited President Shimizu "to bring the Large-Scale Retail Store Law to justice" by the present suit.

* Solutions to Problem of Land Tax System Viewed

902A0172A Tokyo NIHON KEIZAI SHIMBUN in Japanese 13, 14, 17-20 Apr 90 —FOR OFFICIAL USE ONLY

[13 Apr 90 p 7]

[Interview with LDP Tax System Investigation Committee Chairman Masajuro Shiokawa; interviewer not identified; date and place not given]

[Text] The Land Tax System Subcommittee of the government's Tax System Investigation Committee, chaired by Hitotsubashi University Professor Hiromitsu Ishi, holds its first meeting on 13 April. The subcommittee will tackle the correction of the unfairness of the tax burden and the asset gap, the stabilization of land prices, the promotion of the supply of land in large cities, and the radical reform of the land tax system from a number of angles. The Liberal Democratic Party [LDP] Tax System Investigation Committee has already begun its examination. We asked the opinions of people from various spheres of society on what should be done with the land tax system.

Highlights of first interview:

- 1. The first topic of land reform is the encouragement of the efficient use of land through such measures as the revision of the Land Lease Act and Building Lease Act. Accelerating the supply of land, correcting asset differentials, and so forth are secondary problems.
- 2. Even taxing farmland within city limits at the same rates as residential land will, not by itself, increase the supply of land.
- 3. Rather than examining the tax system in isolation, we must first establish a fundamental approach to land policy. We have no intention of rushing ahead with the tax system alone.

[NIHON KEIZAI SHIMBUN] One can think of a number of issues in the reform of the land tax system: the correction of unfairness and of the asset gap, the promotion of land supply, and so forth. Which of these should have the highest priority?

[Shiokawa] "There are three problems involving land for which we must devise countermeasures. First there is the balance of the supply of and demand for land; next there is the relationship between proprietary rights to land and lease and use rights; and then there is the asset gap between people who own land and people who do not. The most important of these is the second problem; in other words encouraging the efficient use of land through the revision of lease rights.

"Under the current Land Lease Act and Building Lease Act, which are very strict toward lessors, landowners do not rent out their land. To increase the supply of housing, we must first set about settling that problem, and we must seriously consider the revision of capacity rates and the practical use of public land. Increasing land supply through the tax system will not be very effective. In fact, solving land problems with tax incentives has been tried many times, but with almost no success. Was that not because the promotion of efficient land use was neglected?"

[NIHON KEIZAI SHIMBUN] Are you saying that the tax system is incapable of correcting unfairness and the asset gap, and expediting the supply of land?

[Shiokawa] "The first task in solving the land problem is to promote efficient land use. Aren't the correction of inequity and the facilitation of supply secondary problems? From that point of view, we will consider what should be done about the taxation of land possession and land transactions."

[NIHON KEIZAI SHIMBUN] At the end of last year, the LDP's Tax Committee set forth in the direction of taxing farmland within city limits at residential rates....

[Shiokawa] "Great importance has been attached to the taxation of farmland at residential rates to increase the supply of land, but this would be a mistake. Taxing farmland at residential rates would not increase land supply. Rather we should create an environment conducive to the conversion of urban farmland into land for housing; in other words, we must clearly show farmers a city plan which provides a foundation for that conversion at some point in the future. However, if that land is to be kept as farmland then it would be OK to tax it at residential rates."

[NIHON KEIZAI SHIMBUN] There are those of the opinion that the reverse lines should be drawn, putting urban farmland into urban controlled-development districts [where the infrastructure needed for development may not be built].

[Shiokawa] "If that is done, then the farmers who have been placed in the controlled-development districts will demand guarantees of the water supply and drainage services they need for farming. It is merely an emotional argument to say that because many farmers are tax evaders, causing unfairness, the reverse lines should be drawn.

"The problem is that even where urban plans exist they are just pictures; and there are many places where not a

single road can be built. That is why we decide to wait for the landowners to sell. This standby condition applies not only to farmland, but to land all over. It is necessary that we consider how to restore confidence in urban planning, and the imposition of limitations on private rights to land—including in some cases the compulsory expropriation of land by eminent domain. Measures to deal with the land problem through the tax system should be advanced alongside measures such as these. It is not a good idea to rush ahead through the tax system alone."

[NIHON KEIZAI SHIMBUN] What is your opinion of the taxation of idle land held by corporations and of latent profits, and of the revision of the system of appraising land prices?

[Shiokawa] "After first studying the lease problem, ideal capacity rates, the restoration of the people's confidence in urban planning, and the relationship between public rights and private rights, we will investigate how we can add supplementary taxes. Now is not yet the time to discuss what should be done about the tax system by itself.

"From now until July or August I would just like to agree upon a basic party position. After that we will consider what can be done through the tax system. This is not a matter which can be settled by the Tax Committee alone, so it will no doubt become necessary to work closely with the party's Policy Research Committee and the various government ministries."

[14 Apr 90 p 7]

[Interview with Japan Socialist Party Policy Council Chairman Shigeru Ito; interviewer not identified; date and place not given]

[Text] Highlights of second interview:

- 1. The land tax system works to the advantage of corporations. The profit corporations realize from the increased prices of the land they hold should be taxed.
- 2. The formulation of clear urban plans by municipal governments is a prerequisite for the taxation of farmland at residential rates.
- 3. Appraised values for property taxation must be made to reflect market prices.

[NIHON KEIZAI SHIMBUN] In order to solve the land problem, what aspects of the land tax system do you feel should be addressed first?

[Ito] "First of all, is it not necessary to introduce something like an incremental value land tax on corporations? In the case of corporations which have owned land in Tokyo for many years, it is said there are many instances where the book value of a company's land holdings is only one one-hundredth of the land's official value. I think we need to take steps to revalue assets every 10 years or so, and to tax at a low rate the profits from increased land prices. Some planning will be necessary to work out the concrete method, but we will have to dip into this vast unearned income.

"An incremental value land tax on corporations is also essential from the standpoint of balance with the land tax on individuals. Assets of individuals are revalued at the time of inheritance, and a huge inheritance tax is levied. Corporations do not have that worry. If this situation is left to take its own course, eventually all the land in major cities will end up being owned by corporations."

[NIHON KEIZAI SHIMBUN] What do you think about the taxation of farmland within city limits at the same rates as residential land?

[Ito] "The system we have had up until now of ascertaining an individual's intention to engage in farming, and assigning low property tax rates to those who do intend to farm, is not a good one. Even planting a few radishes in land which should only be used for housing is considered to be an intention to engage in farming.

"However, what is missing from the Liberal Democratic Party's [LDP] discussion of taxing urban farmland at residential rates is the relevance of urban planning; of how to build a city. It is urgent that we have municipalities create detailed urban plans for the building of comfortable, livable cities. After that we should tell people that their land is fit to be used for housing, and that if they still intend to keep it as farmland we will raise their taxes. If we tax farmland at residential rates without city planning, we will merely fall prey to developers aiming at price increases. That could not possibly be successful."

[NIHON KEIZAI SHIMBUN] What is your opinion of the problem that appraised values for property tax purposes differ widely from market prices, causing inequity between regions?

[Ito] "That is a big problem. Appraised values should be standardized in a way which reflects market prices. Then there will be criticism of the fact that appraised values in regions with phenomenal increases in land prices such as Tokyo will rise sharply, increasing tax payments, but in that case tax rates can be lowered. If we do not determine property taxes on the basis of market prices, and unify them with other official assessments, we will run into trouble in setting forth effective measures to deal with the land problem. A tax increase is not the objective."

[NIHON KEIZAI SHIMBUN] How do you rate the idea that resident taxes should be lowered and property taxes increased?

[Ito] "I am interested in that idea, and I'm in the midst of studying it now. Certainly the city of Tokyo and other municipalities have treated the symptoms rather than the cause by holding property tax assessments low despite the increases in land prices. We must make an in-depth study of what property taxes should be."

[NIHON KEIZAI SHIMBUN] How will the Japan Socialist Party [JSP] tackle the land problem, including the revision of the tax system?

[Ito] "The land problem is a fundamental one for Japan as it undergoes a major transformation from the age of the producer to the age of the consumer. It is a problem which we must solve on our own initiative. It is something to be ashamed of that this was brought up by the American side as one of the pillars of their position at the Japan-U.S. Structural Impediments Initiative [SII] talks. I would like to establish an ad hoc committee on the land problem within the JSP, and consider countermeasures. We must also cooperate with the Komeito, the Democratic Socialist Party, and the United Social Democratic Party, who all joined forces for the Basic Land Law, in making policy proposals. If the LDP agrees, I think it would be a good idea for the ruling and opposition parties to cooperate across party lines."

[17 Apr 90 p 7]

[Interview with Tokyo Metropolitan Tax Bureau Director Hiroo Tamai; interviewer not identified; date and place not given]

[Text] Highlights of third interview:

- 1. We must exclude speculative factors when considering property tax appraisal values. If property tax appraisals are increased, measures will be necessary to moderate the upheaval, such as reducing the city planning tax.
- 2. Taxation of farmland within city limits at the same rates as residential land should adhere to the system of long-term farm operation, and preserve that land which ought to be preserved for farming.
- 3. We must study the taxation of the latent profits corporations earn from land from the point of view of correcting the unfairness of the tax burden.

[NIHON KEIZAI SHIMBUN] Many people are saying that to correct the asset gap and the unfairness of the tax burden, and to strengthen land policy, taxes on land ownership should be increased.

[Tamai] "Ensuring fairness and equity is the first objective in tax administration. The role of the tax system in correcting the asset gap is not insignificant. However, promoting the supply of housing is the function of land policy. The tax system merely plays a supplementary role in that. To begin with, the property tax is a 'benefit tax' which pays for administrative services, and it is unreasonable to link it to land policy."

[NIHON KEIZAI SHIMBUN] People point out that the tax base (appraised values) of the property tax is too low, especially in Tokyo.

[Tamai] "I don't think that appraisals in Tokyo are low. With the appraisal revision in 1988, the average appraised value for land of all uses increased 15.7 percent, and commercial land rose more than 50 percent. "Of course a fair appraisal is necessary, but is it right to judge whether an appraisal is fair or not simply by comparing it to a market price? Is it right to apply an ownership tax directly to a price which reflects speculative transactions? A fair appraisal is one which excludes the effect of abnormal factors such as speculation."

[NIHON KEIZAI SHIMBUN] What sort of approach will you take with the fiscal year 1991 appraisal revision?

[Tamai] "The property tax, in addition to being a 'benefit tax,' has the characteristic of aiming at the tax-paying capacity of assets. Thus in order to correct the asset gap and the inequity of the tax burden, it is necessary to increase appraised values somewhat. However, this is also a tax which is paid every year. There are those who argue that we may heavily tax even those people who own a small amount of land and live on a pension. Along with increasing appraised values, some measures to mitigate the upheaval will be needed.

"In 1988, at the same time that we raised appraised values, we halved the city planning tax on small-scale residential land. This measure is only in effect through 1991, so we will look into extending it when we next revise the appraisals."

[NIHON KEIZAI SHIMBUN] During this fiscal year legislation will be introduced to tax farmland within the 23 wards of Tokyo at residential rates.

[Tamai] "Of those 23 wards there are only 11 where land remains which has been farmed for long periods. In the Tokyo Metropolitan Assembly all parties are united in opposing full implementation of such taxation from the standpoint of fostering urban agriculture, but the city is exhausting itself in an effort to adhere to the system of long-term farm operation. We must preserve that land which should be preserved for farming, and firmly implement taxation at residential rates on land which the owners only pretend to use for agriculture."

[NIHON KEIZAI SHIMBUN] What do you think of the view that the special landholding tax on vacant land owned by corporations should be strengthened?

[Tamai] "Currently if land is, for example, paved and partitioned for a parking lot, the city treats that as permanent facilities and postpones tax collection. In fiscal year 1988, 8.7 billion yen in taxes were collected, compared to 33.7 billion yen postponed. It is probably necessary to reconsider the standard for recognition of permanent facilities.

"As far as corporate land is concerned, surely there is room to study the taxation of latent profits. Land was excluded from the asset revaluation carried out immediately after the war. From the standpoint of correcting unfairness it is time to consider introducing a new tax. If we want to promote the supply of new land for housing through a tax on landholding, we should first tackle a land revaluation tax."

[NIHON KEIZAI SHIMBUN] What points will be dealt with in future discussions of the land tax system?

[Tamai] "Even if progress is made toward rationalizing property tax appraisals, measures will need to be contrived to prevent that from immediately increasing the tax burden. Currently when local governments independently establish standard property tax rates of below 1.4 percent, their issuing of bonds is restricted by the Local Finance Act. Because of this, the tax burden cannot be alleviated by manipulation of tax rates. Alongside the rationalization of appraisals, I would like to see consideration of a system which would make that sort of action possible."

[18 Apr 90 p 7]

[Interview with NKK Vice President Toshio Sunagane; interviewer not identified; date and place not given]

[Text] Highlights of fourth interview:

- 1. Most land held by corporations is used in production, and cannot easily be parted with. Even if a land revaluation tax is introduced with latent profits as its object, the supply of land will not increase.
- 2. There is said to be inequity between individuals whose land is reappraised at the time of inheritance and corporations whose land is not, but the two cases cannot be dealt with in the same way.
- 3. In addition to causing firms to give up idle land by increasing taxes on it, there is also the route of letting corporations themselves redevelop that land.

[NIHON KEIZAI SHIMBUN] There are indications that landholding by corporations tightens the supply of and demand for land, bringing about a rise in prices.

[Sunagane] "Much of the recent increase in land prices has been caused by land turnover. Therefore, the first thing which must be done to curb that increase is to restrict the flow of funds into land speculation. No doubt it is also necessary to make corporations give up land they hold for speculative purposes by such measures as increasing taxes on that land.

"However, what we must not forget is that most land owned by corporations is land used for production, on which factories are built, and is not held in the hope that its price will rise."

[NIHON KEIZAI SHIMBUN] What do you think of the idea of reappraising the value of land held by corporations, and introducing a new tax on latent profits [earned from that land]?

[Sunagane] "If land used for production is revalued in one fell swoop, and taxes are imposed on it, companies will be unable to keep going. Their international competitiveness will no doubt greatly weaken. Moreover, doing so will not solve the land problem. Because land used for production can never be sold, even taxing latent profits will not cause the supply of land to increase. I cannot be persuaded that the supply of land will be increased through a reappraisal tax."

[NIHON KEIZAI SHIMBUN] One can also say that it is unfair that although when land owned by individuals increases in price, it is reappraised and taxed at the time of inheritance, corporations can hold on to price increases in the form of latent profits.

[Sunagane] "Individuals' inheritable assets, ownership of wh[illegible]s transferred, and land owned by corporations, which is used continuously for business and whose ownership is not transferred, cannot be dealt with in the same way. If land owned by corporations is sold, it is taxed at the market price. Can't we say that fundamentally, to increase taxes on land used for business is to place restrictions on corporations themselves; on business activity?"

[NIHON KEIZAI SHIMBUN] What do you think of the inequality between firms which merely because of their long histories are able to fully use the latent value of their land, and new firms which cannot do that?

[Sunagane] "Established companies which own land certainly have an advantage in being able to use that land as security for raising funds. In fact, during the recent high-yen recession, it seems that many companies utilized land as a latent asset and rode out the slump. However, land prices did not go up because firms desired it, and to label that as inequality....

"Furthermore, Japan's credit system itself is premised on the latent value of land. Because of that, will it not now be difficult to bring land prices down?"

[NIHON KEIZAI SHIMBUN] It is expected that the Land Tax System Subcommittee of the government's Tax System Investigation Committee will investigate the strengthening of the special landholding tax on idle land.

[Sunagane] "The problem is how to determine what is idle land. We hope for a reasonable categorization which does not count as idle that land which is held for the purpose of carrying out the business of the firm.

"In addition, there is the problem of who will effectively use idle land, or redevelop it. One method is to increase the taxes on such land, causing companies to give it up, and having local governments develop it, but there would be nothing improper about companies taking charge of this themselves. No matter who handles the development, there will be no difference in what constitutes effective use."

[NIHON KEIZAI SHIMBUN] Will redevelopment by corporations of their own land have positive results?

[Sunagane] "In places such as the Tsurumi district of Yokohama, land which has opened up due to the concentration of company houses and dormitories [replacement of single-family or low-rise buildings with high-rises] is being redeveloped into rental offices and

subdivided condominiums. If progress is made in corporate restructuring, in the future land which is used for factories will also become an object of redevelopment."

[19 Apr 90 p 7]

[Interview with Sophia University Professor Kikuo Iwata; interviewer not identified; date and place not given]

[Text] Highlights of fifth interview:

- 1. An effective way of resolving the land problem would be to strengthen the transfer tax while introducing a tax on latent profits, increasing the cost of holding on to land. In this way, along with curbing speculation, the supply of land can be increased.
- 2. At present, bringing property tax appraisals closer to market prices can be expected to have the same effect as taxing latent profits.
- 3. The tax system is not a supporting player. Linking it to urban planning shows its effects. Measures are necessary to reduce taxes on those who adhere to plans.

[NIHON KEIZAI SHIMBUN] Many people say that in order to accelerate the supply of land and decrease land prices, the government should lower the tax on land transfer profits and strengthen taxes on landholding.

[Iwata] "Whether intentionally or not, everyone engages in land speculation. White-collar workers rushing to buy houses is one form of speculation. In order to curb that demand, rather than lessening the transfer profits tax we should strengthen it. However, if the transfer tax is strengthened, land will be 'salted away' [and not sold.]

"Taxing latent profits will be effective in preventing that. That is because even if land were not sold, the amount of the price increase of that land would be taxed as latent profit, eliminating the reason for holding on to land and not selling it."

[NIHON KEIZAI SHIMBUN] What would be the concrete form of a tax on latent profits?

[Iwata] "The tax rate on latent profits would be equal to the rate of the transfer tax plus the interest rate. That would be equivalent to collecting the interest on the transfer tax every year in return for deferring imposition of that tax. To the taxpayer, the terms would be the same whether he sold the land or not.

"The tax rate would be the same regardless of the size of the latent profit. That is because of the fear that if the tax were progressive, large plots of land would be chopped into pieces. With separated taxation, it would be desirable to assess latent profits about once every three years."

[NIHON KEIZAI SHIMBUN] What will happen to land transactions and land prices with the strengthening of the transfer tax and the introduction of a tax on latent profits?

[Iwata] "A tax on latent profits will stimulate the supply of land and its effective use. That is because as a result of the increase in the cost of holding land, landowners will no longer be able to leave it idle. If the appraisal value which is the basis for property taxation is made equal to market value, the same result could probably be obtained. Furthermore, if the transfer tax also increases for those who hold land, more land will be released, and land prices will fall.

"That would be the ideal form for taxation to take, but it will not immediately be possible. For the time being, it would be enough to raise property tax appraisal values to bring them even a little closer to market prices; and to prevent the transfer tax from being lowered even further. The point is to create a tax system in which land cannot be held unless it is used."

[NIHON KEIZAI SHIMBUN] There are those who say that the tax system can play no more than a supporting role in solving the land problem.

[Iwata] "The tax system and urban planning should work in tandem. It is not a matter of one having precedence and the other being supplementary. The secondary role of the tax system is due to the passive stance displayed by the tax authorities. Land policy will begin to show results when planning and taxation are added to a reform of the Land Lease Act and Building Lease Act.

"A classic example of failure because planning and the tax system were not linked together is the taxation of farmland within city limits at the same rates as residential land. As land policy which has as a priority correcting inequality, there is no reason to give special treatment to farmland. This is land which city plans have said should be converted into land for housing, so it must be taxed without exception at residential land rates. In Tokyo, the supply of land for housing takes precedence over everything else, so lines must be redrawn to take land out of urban controlled-development districts."

[NIHON KEIZAI SHIMBUN] What should be done to successfully link urban planning and the tax system?

[Iwata] "In cases where landowners adhere to city-building plans, for instance in redevelopment, it would be a good idea to extend favorable treatment on the tax side by reducing the transfer tax, along with easing the restrictions on capacity rates. In contrast, in cases where landowners undertake development by themselves, unconnected to a broader plan, capacity rates should not be eased and the transfer tax should not be lowered. Of course, I advocate taxing property at market value."

[20 Apr 90 p 7]

[Interview with Government Tax Committee Land Tax System Subcommittee Chairman Hiromitsu Ishi; interviewer not identified; date and place not given]

[Text] Highlights of sixth interview:

- 1. Through reform of the land tax system, we are aiming at the destruction of the "myth" of land. For that purpose, we need the "stick" of an increase in the taxes on land possession.
- 2. In addition to the taxation of farmland within city limits at the same rates as residential land, correction of the inequity between individuals and corporations concerning land holding will become a subject of study.
- 3. Without shying away from political taboos, we should put all aspects of the land problem on the table.

[NIHON KEIZAI SHIMBUN] What is your basic approach to the reform of the land tax system?

[Ishi] "Before rushing into reform of the tax system, the subcommittee of the Government Tax System Investigation Committee began by investigating what is at the heart of the land problem; and the idea held in common by all the members was the elimination of the asset gap. Up until now the standpoint of the 'haves' has most often come first, but this time we want to give serious consideration to the viewpoint of the 'have-nots.' The role of the tax system in land policy, which so far has been a supplementary one, providing incentives, will no doubt be modified somewhat to bring the tax system more to the fore."

[NIHON KEIZAI SHIMBUN] It is said that of land possession taxes, land transfer taxes, and land acquisition taxes, it is reform of land possession taxes which is given the most emphasis.

[Ishi] "In order to increase the supply of land, there are those who say we should use the carrot of a decrease in the transfer tax and the stick of an increase in the taxes on landholding, but most within the subcommittee have a negative opinion with respect to the former. Up until now, for political reasons, 'carrot' policies were adopted in most cases. Now it is probably time to consider using a stick, centered on taxation of land possession.

"The aim of an increase in taxes on land possession is the destruction of the 'myth' of land. We would like to have people believe that the idea that if one holds on to land it will be profitable, that the price of land cannot possibly go down, is incorrect."

[NIHON KEIZAI SHIMBUN] Has the concrete direction of a reform of the taxation of land possession been decided?

[Ishi] "The government's Tax System Investigation Committee has long called for the full implementation of the taxation of farmland within city limits at the same rates as residential land. Therefore, at the very least taxation of farmland at residential rates will be included in our report. Among the members are those of the opinion that urban farmers are the same as real estate managers. Of course opinion is divided, but the subcommittee will probably return to the spirit of the enactment of the Town Planning and Zoning Act of 1972, and reaffirm previous reports which called for taxing farmland at residential rates."

[NIHON KEIZAI SHIMBUN] There are many indications that the appraisal values which are the basis for property taxes should be raised.

[Ishi] "Among local governments there is strong resistance to increasing property tax appraisal values for the purpose of land policy. The reason is that the property tax is a 'benefit tax' for administrative services.

"Rather, the use as a policy measure of the special landholding tax on unused land owned by corporations will be investigated. For example, one method would be to revise the provisions of the tax, such as the period of ownership (now less than 10 years) and the land area (now above 2,000 square meters for government-designated cities [those accorded the privilege of executing for themselves some of the administrative affairs ordinarily within the jurisdiction of the prefectural office]), to increase the amount of land subject to the tax."

[NIHON KEIZAI SHIMBUN] Will efforts now be focused on the taxation of corporate-owned land?

[Ishi] "It was brought to light in National Land Agency hearings that corporate land possession is increasing rapidly. In cases where land prices have increased, individuals have their property revalued and taxed at the time of inheritance; but corporations are not subject to that, and keep the amount of the increase as latent profits. This tax structure gives rise to a sense of unfairness between individuals and corporations, and it is commonly understood that it accelerates corporate land purchases.

"A property reappraisal tax is one way of taxing latent profits, but strengthening the special landholding tax would achieve the same effect."

[NIHON KEIZAI SHIMBUN] What are your aspirations as subcommittee chairman?

[Ishi] "I would like to place all aspects of the land problem on the table, without shying away from political taboos, and to write a just and reasonable report. I would like to reexamine what can be done with the tax system alone, and what should be combined with urban planning and financial regulation. The subcommittee's report should appear this fall. I will be pleased if when policies are actually made, for instance in the tax reform of fiscal year 1991, they are chosen from what is in that report."